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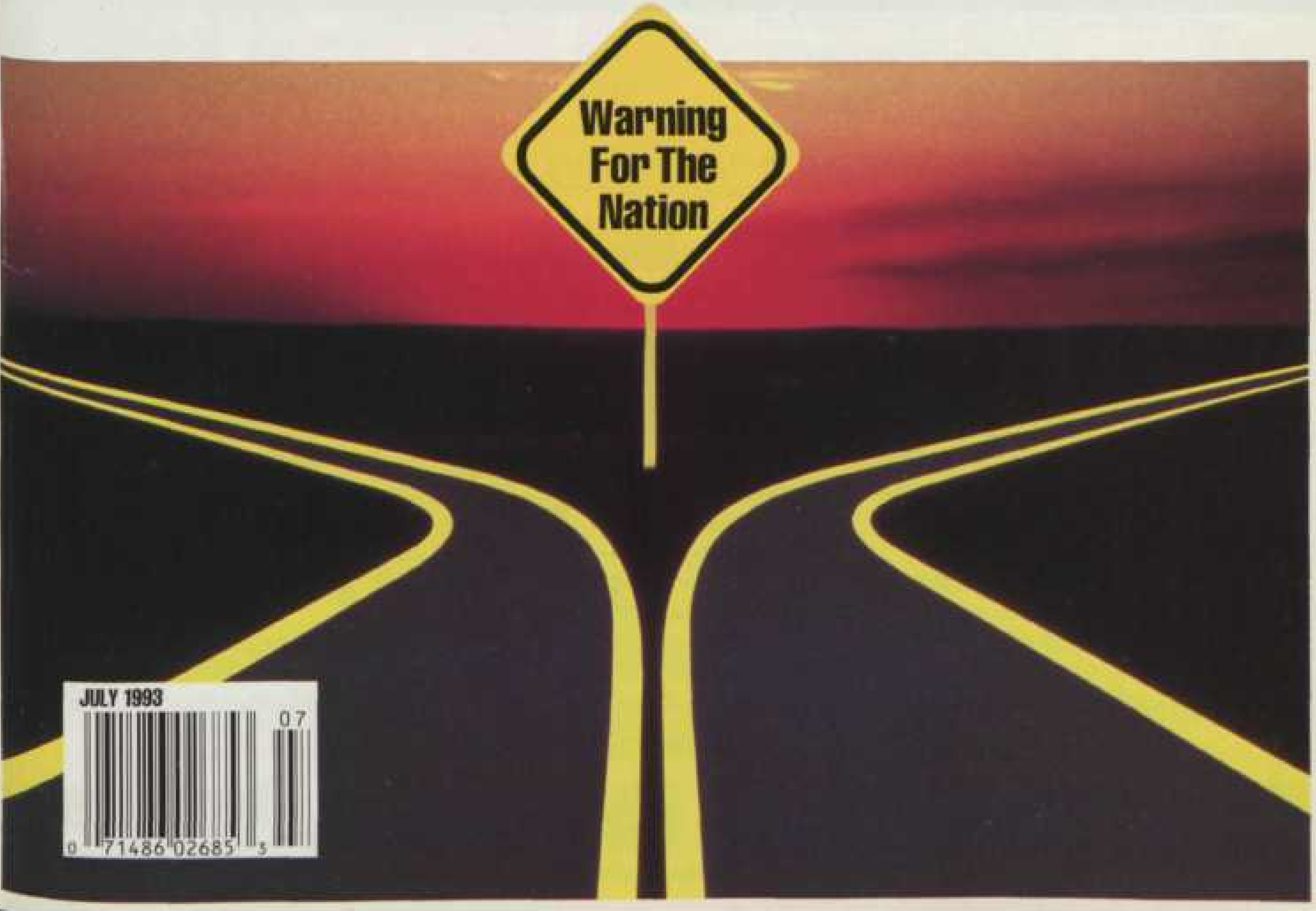

JULY 1993

"The Blue Chip Enterprise Initiative shines a spotlight on America's small businesses. It's an honor to be selected and to serve as an inspiration to others."

G. Rives Neblett, CEO, Shelby Die Casting Company

G. Rives Neblett, Shelby Die Casting Company, receives National Blue Chip Enterprise Initiative Award from Connecticut Mutual CEO, Denis Mullane.

When it comes to business success, most corporate giants devote time and money to gaining the spotlight.

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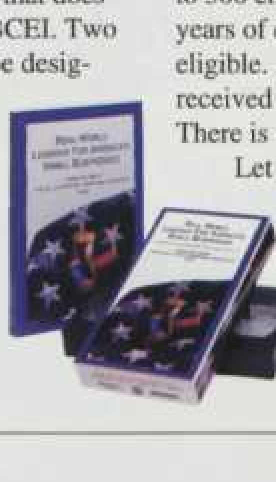
If your business has a story to tell—or you know of one that does—call us at 1-800-FOR-BCEI. Two hundred businesses will be designated nationwide. And ultimately, four national winners will be selected and invited to the U.S. Chamber of Commerce meeting in Washington, D.C. in February, 1994.



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Any for-profit company with 5 to 300 employees and at least three years of continuous operation is eligible. Applications must be received by **NOVEMBER 19, 1993.** There is no cost to apply.

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The Small Business Adviser

Nation'sBusiness

Published by
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Washington, D.C.

PHOTO: [illegible]

California's rising business costs *are driving many companies to transfer their operations to other states. One departing firm is Custom Stamping, where employees such as Chris Fili and Philip Lipka turn out precision parts. Cover Story, Page 16.*

The comedy/mystery *"Shear Madness" is setting longevity records at several theaters. Making It, Page 12.*

VOL. 81, NO. 7

Editor's Note

PHOTO: EDUARE HALL

Teacher *Carey Stacy created a language-education firm that has grown impressively. Managing, Page 31.*

DEPARTMENTS

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The California Story

PHOTO: ©TERRY ASHE

Gov. Pete Wilson of California was among the key people interviewed (see photo) by our Senior Editor John S. DeMott for this month's cover story. This report, beginning on Page 16, deals exclusively with Wilson's state, but the theme is one that small-business people in all parts of the country will find familiar.

The story details the damage that heavy-handed fiscal and regulatory policies caused on top of other severe economic blows, including sharp cutbacks in the aerospace industry.

Our purpose is not to single out the state for criticism but to show that driving companies out of the state—or even out of business—in the name of social progress is a lose-lose situation.

California's business leaders are now pressing for reforms. There's a message here for every business everywhere about the consequences of proffering anti-business initiatives as social progress. You'll want to read it for the lessons it contains for your state.

The cost and availability of health insurance has been a prime concern of our readers, and this interest has been reflected in our extensive coverage. Our readers are among the best-informed small-business people on the subject.

The business role in medical insurance has gained new prominence because of the Clinton administration plans that could affect the way every American obtains and pays for medical care. To keep you current on developments, we inaugurate this month Health-Reform Watch, on Page 24. It will focus on the administration's proposals, how they are being received by small business, and what their long-term impact would be. It's not a substitute for our longstanding and broad coverage of health-care issues but a valuable addition to it.

Robert T. Gray

Robert T. Gray
Editor

Nation'sBusiness

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Letters

Time To Put A Brake On Wilderness Expansion? . . .

"Expanding The Wilderness" [May] was excellent. The public has been led to believe that if wildlife and timber resources are simply left untouched by man, they will suddenly revert to some idyllic state, in perfect harmony and balance. That simply isn't the case.

Wildlife and timber resources in the U.S. have prospered over the past few decades, not simply through admiration of them from afar but through hands-on management, especially on privately owned property. It's when Uncle Sam steps in to run the show that things usually go awry.

Many of the preservationist groups see mankind as an intruder, and they want all human-related activities—timber harvesting, hunting, mining, grazing—stopped. But the tab is picked up by those who lose their jobs, by communities that close down, and by education and the transportation infrastructure, since such activities are supported by the taxes generated by the use of this resource base.

O.E. Barnes
Monroeville, Ala.

PHOTO: ELJOHN CHASSON—GAMMA LIAISON

Should more *U.S. forest land be off-limits to loggers?*

. . . Or On Loggers?

The story struck a raw nerve. For years, "preservationists" have looked to compromise to save the forests owned by the people of the U.S. from the reckless destruction committed by logging companies, but to no avail.

Now the tables have turned. The U.S. automobile industry has a hard road to travel to regain the confidence of the American consumer; so does the U.S. logging industry.

William T. Howe
Teaneck, N.J.

Where The AMA Stands On Managed Competition

Re: "Weighing In On Managed Competition" [April]. Your synopsis of the American Medical Association's positions related to managed competition incorrectly stated that the AMA accepts overall health-spending limits.

While the medical profession favors predictable spending and reductions in health-care cost increases, we oppose strict global budgets and price controls as unwise and unworkable. These cost-control approaches are inflexible and unresponsive to changes in the health-care environment.

The AMA stands ready to work with government and consumers to implement effective cost-containment measures that do not imperil the health of Americans.

James S. Todd, M.D.
Executive Vice President
American Medical Association
Chicago

[Editor's Note: The article said that the AMA "would accept overall health-spending limits but not regulation of doctors' fees." We welcome this opportunity to clarify the association's position on this key point in the continuing discussion on health costs.]

How Women Can Find Help To Grow Their Businesses

Re: "Expansion: A New Complaint From Women" [Women In Business, May].

One source often overlooked by business people who want to expand is their industry's trade association. Had the owner of the temporary-help company specializing in providing critical-care nurses to hospitals looked to a trade association, she would have found a plethora of companies that specialize in payroll funding for temporary-help companies.

Bruce Steinberg
Media Relations Manager
National Association of Temporary Services
Alexandria, Va.

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000, and include your phone number. You may fax your letter to (202) 887-3437. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

Entrepreneur's Notebook

By J. Peter Perez

Playing By The Rules—The Ones You Write

It was about 2 a.m. on the day after Christmas, 1985, and I couldn't sleep. My three-year-old, Baton Rouge-based company, Microbe Masters, was wrestling with the effects of a botched initial public offering. With annual sales of only $1 million, we were choking on a half-million dollars in debt. That was why I was lying awake, trying to figure out how to get out of a big mess.

I picked up a pencil and started writing. When I stopped after about 30 minutes, I had written 15 personal rules—some derived from my mistakes and other experiences, some from the expertise of others, and some from common sense—for the way I wanted to do business.

The next day, I set about living by those rules. They gave me focus. From that point on, I got down to three essentials: selling and marketing my products, providing service to customers, and cutting every nonessential cost. Eighteen months later, the company was out of debt, and sales growth was back on target.

Microbe Masters eventually became Environmental Remediation, which develops bacteria, or "bugs," that "eat" waste, including hazardous organic materials.

It has been a fast-growth business, particularly given the stepped-up concern for the environment. Since 1985, the company has boomed. It employs about 150 people, has purchased seven other companies—with $25 million in assets—over the last four years, and should have sales of about $18 million this year.

Through all of that expansion and acquisition, my rules have always been at the heart of what this company does. I keep a set with me and refer to them whenever necessary.

The rules that I live by cover everything from becoming involved in ventures only when there is a sensible, practical business plan, to remembering and protecting my priorities and responsibilities, to facing problems head-on.

PHOTO: ©KATHY ANDERSON

J. Peter Perez: *Drawing up a list of personal rules for doing business "gave me focus."*

Although I share my personal guidelines when asked, I believe entrepreneurs should develop their own rules—combining lessons from their own lives with expert advice to create a blueprint for the way they want to do business.

Your list might consist of just a few rules, as many as my 15, or even more. But the list should provide a grounding, a place where you can look for a reminder of what is truly important.

Get advice from books, from people like Vince Lombardi or Ray Kroc or Ross Perot, or whomever you admire. Use what helped them succeed in the past as a basis for your success in the present and future.

Sitting down to write rules sounds easy, but it's not. I didn't do it until I was desperate.

Most entrepreneurs don't do it at all, turning instead to consultants and outside help to energize a company. I'm not opposed to consultants, but I only want to use them for things the company can't do on its own. I know too many business people who have hired consultants to study their finances and marketing plans, only to be offered the very same solutions they could have discovered on their own if they had spent two hours with a pencil, figuring out how to get back to basics.

When the entrepreneur implements a consultant's plan—cutting jobs, trimming fat, and so on—there is someone else to blame if the results are disappointing. Establishing your own rules and living by them leaves you, the entrepreneur, in the hot seat, which is where you wanted to be when you first got into business.

Rule 10 on my list is "Be honest with yourself first, then others. Face reality." Making a set of rules and living by them forces an entrepreneur to do exactly that.

Your rules should not be so restrictive that they cut you off from opportunity. Instead, your rules should help both you and your business develop an essential character as the basis for all your operations. When you are focused in that way, it's easier to determine which opportunities are best to pursue.

I review my rules frequently and keep looking for anything I might want to add. I even have a few unwritten rules that could wind up on the list some day.

For now, though, I'll stick with the list that helped me turn this company around in the mid-1980s. It wasn't easy, and it didn't happen just because I had rules to follow, but I believe that the company will never get in trouble again so long as I follow my own guidelines. NB

What I Learned

Entrepreneurs should develop their own rules—combining lessons from their own lives with expert advice to create a blueprint for the way they want to do business.

J. Peter Perez is president of Environmental Remediation Inc. of Baton Rouge, La. He prepared this account with Nation's Business *Contributing Editor Charles A. Jaffe.*

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

Dateline: Washington

Business news in brief from the nation's capital.

SMALL BUSINESS ADMINISTRATION

New SBA Chief Will Convey Small Firms' Views

Erskine Bowles, the new head of the U.S. Small Business Administration (SBA), says President Clinton has assured him that small business will "have a seat at the economic table." And Bowles pledges he will inform policy-makers in the administration of the potential effects of their proposals on small business.

In order to be an effective conduit for the concerns and ideas of small-business people, Bowles plans to hold frequent town-hall-style meetings throughout the United States. "I will be listening to small business for the president," he recently promised the 50 state winners of SBA's Small Business Person of the Year designation.

At his White House swearing-in ceremony in May, Bowles, an investment banker from Charlotte, N.C., listed his policy priorities for the SBA: ending the small-business credit crunch; eliminating unnecessary regulation and paperwork; and reinvigorating the agency to enable it to better serve users of SBA services.

PHOTO: ©THE WHITE HOUSE

In a White House Rose Garden ceremony *with President Clinton, Erskine Bowles is sworn in as SBA administrator by U.S. Circuit Judge James Dickson Phillips Jr. as Bowles' wife, Crandall Close Bowles, looks on.*

In a subsequent discussion with reporters, Bowles said he wants to make the SBA more "user-friendly" and improve the agency's delivery of services. He described the current health-care system as a "mess," agreed that small companies have the biggest stake in bringing health-care costs under control, and said he can think of no justification for giving the self-employed and unincorporated businesses only a 25 percent deduction for health-care expenses while corporations receive a 100 percent deduction.

Bowles told reporters he would enforce the Regulatory Flexibility Act and the Paperwork Reduction Act, passed by Congress to protect small businesses from overly burdensome rules and paperwork requests. "It's our job to bring [those laws] to the attention of agencies," he said. —*David Warner*

INTERNATIONAL TRADE

Data Show Congressional Action Is Key To Export Success

The importance of the North American Free Trade Agreement (NAFTA) to America's economy has been underscored by export figures issued recently by the U.S. Department of Commerce, yet the proposed trade pact continues to languish unratified in the House and the Senate.

Exports to Canada and Mexico, America's free-trade partners under NAFTA, were 6.9 percent higher in the first quarter of 1993 than they were during the first three months of 1992. In contrast, first-quarter 1993 U.S. exports to the economically distressed European Community were down 16 percent from the 1992 level.

America's exporters continue to demonstrate resourcefulness in finding new overseas customers, the Commerce Department figures also show. For example, U.S. first-quarter sales in Poland totaled about three times more than sales a year ago.

Notable export trouble spots are Japan and China, where the U.S. first-quarter trade deficit rose 21 percent and 23.5 percent, respectively, from 1992 levels.

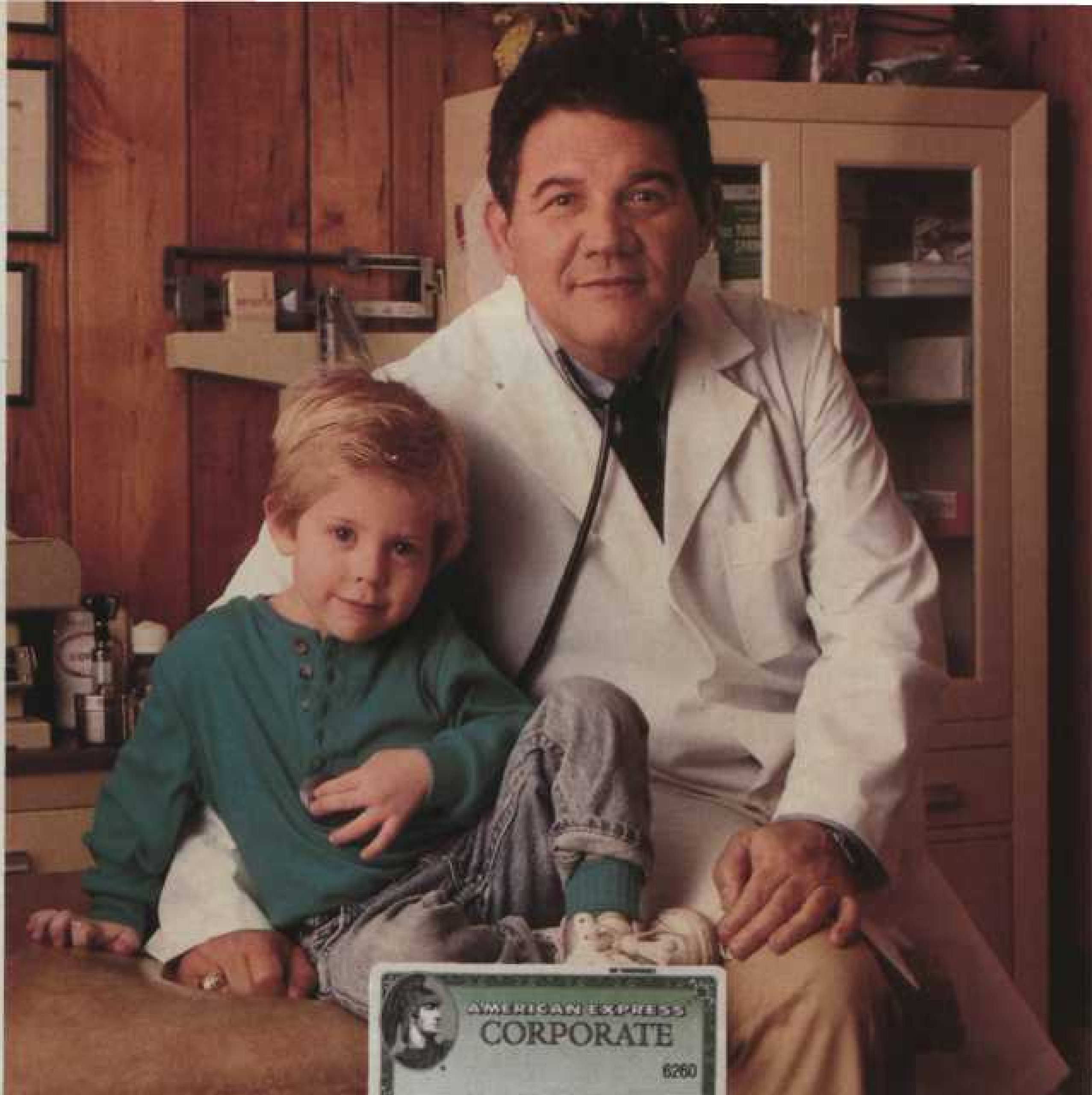
A Road Map For Russian Trade Is Available From CIPE

Russia is an emerging market that Americans have been loathe to enter because of political and economic uncertainty there. A new guide by the Center for International Private Enterprise (CIPE) may help allay the fears of U.S. business people, however.

The publication contains practical, useful advice on doing business in the emerging Russian private sector. The information was gleaned from more than 50 American and Russian experts. Covered are the different stages of conducting business, including getting started, taking advantage of privatization opportunities, obtaining financing, and closing the deal.

The guide is part of a $35 packet that also includes, among other things, exclusive in-depth interviews with the deputy prime minister of Russia and the president of Russia's association of entrepreneurs. The interviews are contained in *Economic Reform Today*, a magazine published by CIPE, an affiliate of the U.S. Chamber of Commerce.

To order the packet, send a check for $35 made payable to CIPE to: Editor, *Economic Reform Today*, Center for International Private Enterprise, 1615 H Street, N.W., Washington, D.C. 20062-2000. —*Albert G. Holzinger*



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Managing Your Small Business

An executive-level sacrifice; a well-stocked car office; tips for attracting top managers to small towns.

By Bradford McKee

GROWTH

The President Departs But Doesn't Resign

When the firm isn't growing and its leader isn't happy in the job, it could be time to let someone else take over.

CAM Data Systems Inc., in Fountain Valley, Calif., was "stalled" at $5 million in sales two years ago until Geoff Knapp, the firm's president, made a radical decision: He handed over his corner office to a new president.

CAM Data, with 90 employees, makes software that helps retailers manage inventory. "We were rolling ourselves out of business by not having the cash to invest in all the things we needed to," says Knapp. When the firm reached $2 million, he took it public but still lacked the capital to sustain its growth, he says. "We ran into trouble and could not get past $5 million."

PHOTO: ©JEFF SCHEID—GAMMA LIAISON

CAM Data Systems founder *Geoff Knapp gave up the presidency of the California company to focus on entrepreneurship from his Boulder City, Nev., home.*

Meanwhile, Knapp's passion for sales and marketing was usurped by day-to-day operation of the business. "I was really hating what I was doing, but I couldn't get out from under it," he says, until he hired someone else to run the firm in 1990.

The first executive he recruited looked great on paper but was in and back out in 90 days. "The company was hemorrhaging, and [the new president] was rewriting the board minutes and setting up a fire-safety team," Knapp recalls, suggesting that a new leader needs to focus on the issues vital to the company's success. "We got rid of him."

Knapp's next choice proved an excellent fit—Carl Smith, a sales manager from an archrival of CAM Data. "I knew he'd manage development, service, and sales. He's well-rounded," Knapp says.

Knapp became chairman of the board and moved to southern Nevada to concentrate once again on being an entrepreneur. He has since bought three small software companies and merged them with his own to realize economies of scale and cover fixed costs.

After three years of losing money, CAM Data turned a profit once again in 1992, when it reached $12 million in sales. "We've made money every quarter since I left," Knapp says. "I like to think it's because we've grown in sales."

Making deals isn't all that Knapp does, however. Recently he went to nearby Las Vegas to train a customer, and he even installs the company's systems occasionally, he says, adding that he genuinely likes what he's doing once again. ■

CONTRACTION

Intelligent Outplacement Can Pay Dividends

If your company is downsizing, you might consider outplacement aid for laid-off workers, not only to help them but also to help maintain your company's standing in the community. As Nyloncraft Inc. has found, a little help can go a long way.

When overcapacity forced Nyloncraft to close an automobile-parts manufacturing plant in Hickory, N.C., last November, the company also had to lay off 65 people, including 13 managers. But instead of handing those managers final paychecks and abruptly bidding them farewell, Nyloncraft turned to an executive outplacement-service kit published by Personnel Strategies Inc., an outplacement firm in Elkhart, Ind.

For about $1,800 for each displaced manager, an expense borne by Nyloncraft, the Elkhart company supplied a briefcase containing seven videotapes (averaging 40 minutes each), plus a 187-page manual explaining how to network, interview, write a resume, and carry out other tasks of job hunting. Most important, it also suggested how to conquer problems of lowered self-esteem and how to adjust to the search for a new career.

In addition, Ron Stoll and Mary Hargarten, principals of Personnel Strategies, conducted numerous seminars, and the laid-off executives could call an 800 number for counseling from "career coaches."

Results so far have been impressive, says Hargarten: "We've seen people come in kicking chairs, and when they leave, they leave with a smile. And they get jobs a lot faster than if they just went out and fumbled around on their own. We teach them how to position themselves in the marketplace far above everyone else."

Larry Knight, Nyloncraft's human-resources manager, says all but one of the 13 managers found new jobs within three months. "I've been laid off myself," he says. "I know what it's like. It's not an easy feeling when a plant closes. So we wanted to do everything we could for these people."

Hargarten says her type of outplacement pays dividends in the form of a better community attitude toward the downsizing company, and it also helps head off legal challenges from angered displaced executives.

—*John S. DeMott*

ORGANIZATION

Keeping An Office In Your Car

If you find yourself doing business in your car, you've probably realized you could stand to be a bit more organized.

Business owners are "in their car office all the time" whether they intend to be or not, says anti-clutter expert Lisa Kanarek of Dallas, author of the recently published *Organizing Your Home Office For Success* (Plume, $10). If you stock your car correctly, she says, you'll save yourself countless trips back home for basic office and business supplies.

Start by assembling several extra sets of your business forms, cover letters, and stationery in addition to traditional office supplies, Kanarek advises. You might want to store these items and other paperwork in a durable file box you can keep in the trunk.

If you need less than a file box, try a plastic milk crate or a portable file holder with a handle.

A car-office console can hold your files, phone, supplies, and even a clipboard. Visor clips keep pens and notes accessible overhead. Try also a note pad mounted with a suction cup, a drink holder to prevent spills, a big pouch for the back of the front seats, a trash bag to keep out clutter, and a trunk organizer for tools, flares, and jumper cables.

Your briefcase, Kanarek says, is the middleman between your car and home offices. Keep folders in it labeled: To Do, To File, To Read, and To Do Upon Return.

For tax reasons, keep track of your mileage in the travel section of your planning book, Kanarek advises, or write down business mileage on your To Do list. You can also keep a steno pad in your glove box for recording the date, point of departure, destination, and miles traveled.

If you have a car phone, keep your bills down by giving your car-phone number to only a few people, Kanarek says. For clients, use a pager, answering machine, voice mail, or answering service. Keep track of calls with a phone log. Use a cassette recorder to keep notes of phone calls on the road.

And drive carefully. ■


PHOTO: ©JOHN R. FULTON JR.

Organized author *Lisa Kanarek shows how to put office neatness on wheels.*

LAW

Don't Help Employees Pad Their Pay Histories

Don't overstate an employee's employment or salary history on a mortgage application, says an attorney writing in the April issue of *Benefits and Compensation Solutions* magazine, or you could be accused of fraud.

What may seem like an innocent effort to help an employee could result in charges of aiding and abetting in a purported scheme to defraud a lender, says Kevin Pegan of Orange, Calif.

In the past, when property values were up, "slight misrepresentations" by employers on mortgage applications didn't draw attention, Pegan says. Now, however, values are down, and lenders double- and triple-check every application for hyperbole.

Be totally accurate, Pegan says. Don't count bonuses as compensation, and tell the "truth as you know it at the time you are asked the question." ■

FEEDBACK

Listening To What Employees Can Tell You

During the past decade, use of employee surveys has become more widespread among large and medium-sized companies, but the practice remains prohibitively costly for many small businesses.

"A large company could spend up to $100,000 to have a survey done, but the costs don't get much below $15,000 or $20,000, no matter how small the company," says Peter Gelfond, U.S. managing director of the Hay Research Group, a Philadelphia-based company that conducts employee surveys.

Regardless of the number of employees involved, the company conducting the survey must do the same background work, have the same discussions with management, and develop a substantial survey questionnaire. But there are alternatives, says Gelfond, for small-business owners who want to tap employees' opinions about business operations. One is to set up focus groups of several individuals and have them meet with someone outside the company. This encourages free discussion of company problems.

Another option for small companies is the "skip-level" meeting, in which the owner meets with a group of workers without including their immediate supervisors. The owner may arrange an informal meeting with a group of clerical workers, for example, or may meet at various times with all groups in the company, depending on whether the goal is to address particular problems or to ask general questions.

And to focus on a single critical issue or problem, you may opt for a low-cost, quick-response telephone survey.

—Roberta Maynard

RECRUITING

Selling The Pluses Of Small-Town Living

Attracting executives to a job at your company may be easy, but getting them to move to your company—if it's in a small town—may pose challenges, says Paul R. Ray Jr., CEO of Paul R. Ray & Co. Inc., an executive-search firm based in Fort Worth, Texas.

Here are some strategies Ray offers for such companies:

Trace small-town roots. To find candidates, Ray says, list some individuals who have lived in your area or perhaps went to college nearby. Track down potential candidates who have relatives nearby. These connections might make them more likely to want to return.

Tug at their lifestyle priorities. You may have to pry a little, but find out what factors they believe would enhance their families' quality of life. Ray cites one pharmaceutical firm that recently persuaded a Houston executive to join the firm, in Grand Rapids, Mich., by pointing out the excellence of the area's schools.

Stress small-town benefits. Don't try to compete head-on with the amenities of large cities, Ray advises. Rather, emphasize the perks of life in smaller towns: Safety, beauty, less-expensive real estate, community. Small towns aren't crime-free, but they're not crawling with burglars, either.

Roll out the red carpet. Introduce the candidate early to potential colleagues and also to local real-estate agents, Ray suggests. Help them meet local school principals and teachers. Do what you can to win over the family based on their needs.

Help with the transition. A Missouri company, says Ray, recently paid a consultant to help a new executive choose schools in the area. The new recruit's boss took him around to community groups and introduced him socially to other executives. ■

Making It

Growing businesses share their experiences in creating and marketing new products and services.

Theatrical Madness

By Ben Fanton

There's an old saying that you can invest in a theatrical venture or you can save time and just throw your money in the street. That may be overstating the case, but, traditionally, investing in show business has been considered risky.

Back in 1980, actors Bruce Jordan and Marilyn Abrams took such a risk and invested $50,000 of their own money to produce a show called "Shear Madness" in Boston. Today, the Boston production is listed in the *Guinness Book of World Records* as the longest-running nonmusical play in American theater history, and other productions are going strong and breaking longevity records in Chicago, Washington, and seven other cities around the world—including Budapest and Tel Aviv.

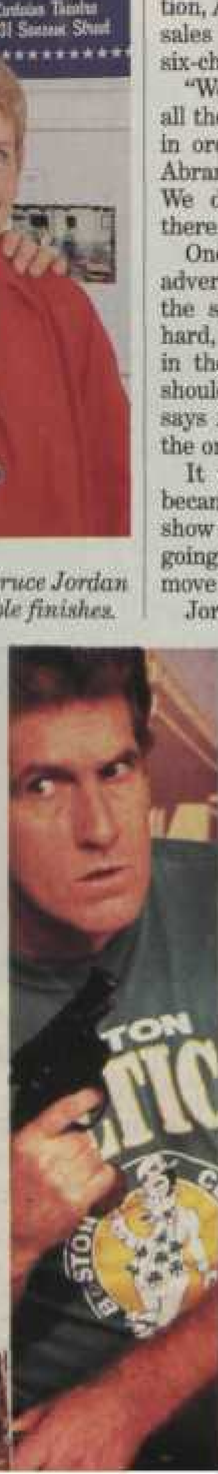
From their original investment, Jordan and Abrams now enjoy gross sales of about $6 million a year. But getting there wasn't easy.

"Shear Madness" is a comedy/mystery set in a hair salon. The play features improvisation and lets the audience question the characters about an off-stage murder and then vote for who they think committed it, thus deciding which ending the cast will play. The show was originally written in German by the late Swiss playwright Paul Portner; Jordan bought the rights and adapted it.

"One of the important things in opening a show," Abrams says, "is to have the money to let it find its audience." To avoid being underfunded, Jordan and Abrams kept a lid on costs. To promote their product initially, for example, they rode their bicycles all over Boston, handing out discount coupons and talking to hotel doormen, desk clerks, and others who could send theatergoers their way.

Ben Fanton is a free-lance writer in Wellsville, N.Y.

"Shear Madness" *producers Bruce Jordan and Marilyn Abrams: Flexible finishes.*



In addition to producing and promoting "Shear Madness," the two partners filled other roles. Jordan directed the production, Abrams developed a fledgling group-sales program, and both acted in the six-character play.

"We've never had the luxury of having all the things people think are necessary in order to set up a theater company," Abrams says. "We don't have secretaries. We don't have receptionists. If we're there, we answer the phone."

Once during that first rocky year, their advertising agency advised them to close the show. "They said, 'You've tried so hard, but all the theaters in Boston close in the summer, and we think you just shouldn't risk losing all that money,'" says Abrams. "We said, 'Great! We'll be the only show in town.'"

It was then, says Jordan, "that we became totally committed to making this show work in Boston. Originally, we were going to do it for several weeks and then move it to New York."

Jordan set to work improving the show, trimming it by 20 minutes and rewriting it to make it funnier. He and Abrams stepped up their promotion efforts. "We told our public-relations people that except when we were on stage, we would go to every radio station in New England and to every newspaper that would talk to us," says Jordan. "We would go to anybody, anywhere, any time, any how."

As "Shear Madness" began to play to sold-out houses, Jordan and Abrams got a bit of advice from renowned director Mike Nichols, who came to see the show. He said they should open productions in other cities.

"Shear Madness" is set in whatever city it's playing in so that local humor can be worked into the show. In the Boston production, for example, one character insults another, an upper-crust matron, by saying, "Remember the Boston Tea Party? She was one of the bags they tossed over."

In another city, the line would

be discarded in favor of a local reference.

"It's kind of each city's little laughing place," Jordan says. "Nobody knows of 'Shear Madness' nationwide. It's not like 'Mame' or 'Hello, Dolly!'—it's a series of little corner stores."

Though they have given up their on-stage involvement, Jordan and Abrams still find themselves steeped in the business aspects of their multicity venture, operating out of Albany, N.Y., under the name of Cranberry Productions (as in "the stuff that goes with a turkey," they say).

"You can't run a play for 14 years without constantly looking for new people to come see that play," says Abrams.

"We try to keep the price as low as we can," says Jordan, "and we watch every penny that is spent." The highest price for a ticket for "Shear Madness" anywhere is $24, and the group price is $14, he points out. "That's a very affordable theater experience."

Jordan and Abrams are optimistic about the future of "Shear Madness," citing the fact that audiences keep growing each year, with the Boston and Washington versions playing at 98 percent capacity and Chicago's production, which recently passed the 10-year mark, at 90 percent. They are considering taking the show to still other cities, such as Los Angeles, San Francisco, London, and Paris.

And what about New York, the theatrical mecca that was their original goal?

"A lot of people want us to open it in New York," says Abrams. "I think we will sometime."

"But," Jordan says with a smile, "it's not the priority that it once was."

A Comeback After Hugo

By Sharon Nelton

Folk Art Traders, a retail gallery of fine Caribbean folk art, faces a bustling street in Christiansted, on the island of St. Croix. Filled with eye-catching carnival masks, voodoo drums, jewelry, sculpture, antiques, and paintings, it boasts a background as colorful as the items it sells.

Its seeds were sown in 1977 when Charles and Patty Eitzen, then living in Los Angeles, decided to tour South America in their '56 Chevy pickup. They got as far as Quito, Ecuador, when their money ran out and the truck blew its clutch.

To make ends meet at first, Charlie offered private English lessons and Patty taught equitation—horseback riding—at a local country club. Soon Charlie began to carve out a career in commercial and industrial photography.

But by 1983, Ecuador's unstable economy and Third World environment had driven them out. They weren't ready to go back to the states. "We wanted something with a little more sense of adventure," says Patty—something, Charlie says, that offered the "good U.S. Post Office and the good American dollar." That something was St. Croix, in the U.S. Virgin Islands. While Patty taught equitation and worked as a waitress, Charlie tried to establish himself as a photographer. But there was just not enough business in commercial and industrial photography on the island. So in 1988 the Eitzens turned their avocation—collecting folk art—into a business, selling folk art and West Indian antiques in Gallows Bay, near Christiansted. Their little store began to thrive.

However, says Patty, "We didn't have insurance." On a vacation to visit her family in Michigan, she had a premonition that their shop should be insured. "I kept calling Charlie from Michigan to say, 'Insure the store.'"

But it was one of those things easily put off. In September 1989, a few weeks after her return, Hurricane Hugo hit. The Eitzens lost $100,000 in inventory, and their home was leveled.

"When your business is lost and your home is lost, you wonder, 'Why stay here?'" Charlie says. After what Charlie refers to as "four months of yea, nay, yea, nay," the Eitzens decided to take the insurance money from the loss of their home and begin again on St. Croix.

From January to September, they and their two young daughters lived in a 30-man army surplus tent while a new home was being built. They sold goods out of their unfinished living room the next four months, and then they were able to move into 300 square feet of space in downtown Christiansted.

Last year, they relocated two blocks away in a former restaurant on Strand Street. "Anyone who comes on this island will walk on this street," says Patty, 37.

Charlie, 45, spends four months a year scouring the Caribbean countries for treasures to bring home and sell. "He's our Crocodile Dundee of the Caribbean," says their one employee, Dixie Hickman.

The result is a tropical emporium brimming with primitive paintings from Nicaragua, ceremonial flags from Haiti, molas (fabric art) from Panama, seed necklaces from St. Croix, baskets, pottery, and even wrought iron and coral furniture. Prices range from a few dollars to the thousands.

PHOTO: SCARLIS LEE

Folk Art Traders' *Patty and Charles Eitzen: The rewards of risks.*

The Eitzens are clearly back in business—Folk Art Traders brings in $175,000 in annual revenues. But the business is still not insured. The cost of insurance is "so outrageous," says Charlie, that if they bought it, the business would not make a profit.

It's a risk, he admits, but he adds that in the years since he and Patty drove their ancient pickup truck to Ecuador, their lives have advanced not because they took safe roads but because they took risks.

A Basket Maker With Vision

By Sharon Nelton

Without a doubt, tiny Dresden, Ohio (population 1,600), is a company town. The Longaberger Co., which makes about 5 million baskets a year and markets them via direct sales, sits at one end of the village, and Longaberger Construction is at the other.

In between are the Longaberger Family Restaurant and three other company-owned restaurants; the Longaberger Museum; eight Longaberger-owned retail shops, and—at Main and Fifth Streets—what is acknowledged in the *Guinness Book of World Records* as the "World's Largest Basket." Constructed with 10 maple trees and 2,000 hours of work, it is 48 feet long, 11 feet wide, and 23 feet high.

Flower-filled baskets supplied and maintained by The Longaberger Co. line several of the streets, and the company does the lawn mowing on Main Street, even for private homes—because it looks better that way.

Last year, 178,000 tourists—up from 75,000 in 1991—came to Dresden from all over the country, attracted by little more than Longaberger baskets. "I wouldn't drive 14 hours to see Dresden myself," David W. Longaberger says tongue in cheek—as if he hadn't in fact concocted a tourism department to lure visitors, sell more baskets, and recruit more salespeople, not to mention make more profits at the restaurants and shops.

Dave Longaberger, 58, started The Longaberger Co. 21 years ago and has built it to more than $200 million in annual sales, 4,000 employees, and, despite the recession, a nearly 40 percent annual growth rate.

One of the secrets of his success is that after four years of struggling to get the company off the ground by selling through retail shops, a friend suggested home party sales. "Bingo!" says Longaberger.

PHOTO: T. MICHAEL KEZA

Dave Longaberger *transformed a family basket-making craft into a growing enterprise.*

When you sell goods in a shop, perhaps only 20 percent of the customers will buy your product, he explains. "When they come to a Longaberger basket party, we pretty well know that 95 percent of them are going to buy something."

The company now has more than 14,000 independent "sales consultants" nationwide.

The home party also proved the perfect vehicle for Longaberger's marketing approach. "McDonald's doesn't sell hamburgers and french fries," says Longaberger. "They sell compassion and feeling."

Longaberger knew that home parties could be used to market baskets by the telling of his family's story.

Dave was the fifth of 12 children born to J.W. and Bonnie Longaberger. J.W. had learned the craft of basketweaving from his father. The family was poor—by day J.W. worked at the Dresden paper mill, and by night he made baskets to sell to farmers and housewives. The family craft was passed on to Dave and his brothers and sisters.

"I was the hustler of the family," recalls Longaberger. As a child, he worked at the corner grocery and a restaurant. Later he drove a bread truck.

Finally, in 1963, Longaberger started his own restaurant and eventually acquired a grocery store.

In the early 1970s, Longaberger began to notice how well foreign baskets were selling. His father still made baskets every now and then and sold them for $1.50 apiece. Longaberger asked for a dozen, and then 10 dozen more, testing whether customers would pay $10 for them in an area store. They did, and Longaberger's third business was born. (Today's basket prices range from $20 to $100.)

Longaberger claims to be a slow learner. Beset by epilepsy and stuttering as a child, he didn't finish high school until he was 20 years old, and only then because he promised his mother he would do it. Nevertheless, he says, "Business is so simple, it's pathetic."

He has devised 18 "principles of management," and his favorite is: "Listen—learn—lead. If you are willing to LISTEN to people, willing to LEARN from what you listen to, then, and only then, will you learn how to LEAD them." Listening and learning, he says, are essential to gaining trust.

The company's main plant boasts its own closed-circuit television network, L-TV (Longaberger Television). While they work, employees can hear or watch nearly 70 monitors mounted above the weaving floor. Programming includes music videos, news, corporate information, and interviews with employees. A couple who met at the company even got married in the studio, and their wedding was broadcast throughout the plant.

One day, the company will go to Dave Longaberger's two children, Tami Longaberger Kaido, 31, president of marketing and sales, and Rachel Longaberger Schmidt, 26, president of manufacturing and human resources.

If their father has his way, they'll have something even more extraordinary to carry on. The business expanded into pottery sales three years ago, and Longaberger's 20-year-plan calls for getting into furniture and real estate and creating an educational theme park. By the year 2010, he sees a company with 30,000 employees.

"We don't need any more visionaries," laughs Rachel Schmidt. "He's got enough vision to last us for two centuries." NB

COVER STORY

California's Economic Crisis

By John S. DeMott

Custom Stamping Inc.'s $2 million factory in the Los Angeles County town of Covina has oak-paneled front offices and a squeaky-clean shop floor. The company's machinery hums, turning out millions of tiny precision metal parts for the computer and telecommunications industries. Annual sales are $15 million.

But Custom Stamping, most of its 68 workers, and 43 punch presses will soon leave California for a new plant near Carson City, Nev. The company expects that its costs there will be about half what they are in California.

Custom Stamping is hardly alone in its disenchantment with the state that has been its home for 23 years: A number of companies are either moving to or expanding in other states because of what many executives describe as excessive regulations, high taxes, too much crime, and an oppressive workers' compensation system that Gov. Pete Wilson calls "a national disgrace."

The loss of these tax-paying and job-providing companies in the nation's most populous state is adding to California's already formidable problems—the national recession, swelling immigration and its heavy demands on state agencies, defense and aerospace downsizing, a prolonged drought's lingering impact on the agriculture industry, scheduled military base closings, and vast construction cutbacks.

Because of California's size, political clout, and tradition as a national trendsetter, the impact of what business generally views as excessive taxation and regulation on companies is being watched closely by businesses and governments in other states for the lessons that the current situation in California offers to other parts of the country.

Business disenchantment with taxes and regulation is not unique to California, of course. New York, Connecticut, and other states are struggling with similar difficulties. But the concept of California up against such serious problems represents a tremendous change in the image that Americans generally have long held

PHOTO: STERRY ASHE

Gov. Pete Wilson says his state's high business costs are the result of "self-inflicted wounds." He's pressing for regulatory and other reforms.

Business leaders hope their lawmakers are finally seeing the light, but the Golden State's experience offers a lesson for the rest of America, including Washington.

Warning For The Nation

PHOTO: ©DOUGLAS BURROWS—GAMMA LIAISON

Storm clouds over Los Angeles, *California's largest city, are symbolic of economic problems that have developed throughout the state under pressures that include anti-growth government policies, which business leaders are now trying to reverse.*

of that state—a mecca of prosperity, growth, and the good life.

When the industrial Northeast headed into decline after World War II, California was on the threshold of explosive growth. Its population of more than 30 million is now three times what it was in 1950. Although New York and Pennsylvania had the largest populations well into the 20th century, California now has more people than those two states together.

California's 52-member U.S. House delegation is equal to the combined delegations of New York and Pennsylvania and accounts for 12 percent of the entire House membership. California's 54 electoral votes are 20 percent of the total needed to elect a president.

California's role as a trendsetter extends from fashions and fads to such significant initiatives as the tax revolution of the early 1970s, widely viewed as the beginning of the political shift that eventually brought Ronald Reagan to the White House and transformed American politics. The state had been viewed as a land of economic promise from the Gold Rush through the emergence of Silicon Valley as the mother lode of American technology.

Despite its growth and drastically expanded political presence, California has been experiencing problems that not only affect individual businesses but also have triggered fiscal crises in the state government. At one point last year, the state was paying employees and vendors with vouchers in lieu of cash while Gov. Wilson and the legislature debated ways to close a multibillion-dollar budget gap. The solution put additional tax pressures on businesses, which have also been forced to cope with regulations that go further than those of many other states.

The Economic Development Corporation of Los Angeles County, a privately funded organization that helps small businesses deal with workers' compensation and other regulatory problems, says nearly 400 businesses and 66,000 jobs have left Southern California since 1990.

In a recent survey by Hankin & Co., a Los Angeles consulting firm, 10 percent of the 90 Southern California companies responding said they "definitely" plan to move some or all operations from California within a year, and an additional 13 percent said they would "probably" do so.

The picture is much the same in Silicon Valley and the San Francisco area. Richard Pimentel, managing partner in the accounting firm of BDO Seidman in San Francisco, says: "Any expansion by my clients is being done outside California. It just costs too much money to do business here."

PHOTO: GRANT BARTHOLOMEW

Heavy-handed regulation *is one reason why Woody and Jeannette Wurster are moving Custom Stamping Inc. to the Nevada site pictured in the background.*

Kirk West, president of the California Chamber of Commerce, recognizes the problems of recent years—he has a list of corrective actions he says the legislature should take to help the economy—but he rejects allegations that the state has gone into permanent decline. "There is an excellent chance for a turnaround," he says.

A basic problem, West says, is what one state official has termed a growing imbalance between "taxpayers and tax receivers." The business-backed reforms to create jobs will rectify that situation, he adds.

The need for greater employment opportunities was cited frequently in the wake of the riots in south-central Los Angeles last year, which wiped out businesses and jobs that the city and state could ill afford to lose. Many analysts argued that high unemployment contributed to the riots, whose immediate cause was a not-guilty verdict in the first trial in the police beating of Rodney King.

A key goal of business leaders such as West in pressing for pro-growth reforms is to halt the exodus of firms seeking more comfortable business climates in states such as Arizona, Idaho, Nevada, New Mexico, Oregon, Utah, and Washington. All of those states have vigorous, sophisticated, aggressive, and warmly welcoming economic-development staffs ready to offer tax incentives, lower business costs, and other attractions to lure companies from California.

Even small-business people with no immediate plans to move are plainly worried. One is Barry Baszile, owner of Baszile Metals Service, Inc., which distributes sheet and bar aluminum to military and commercial customers. "I love California," he says, yet he notes that his annual workers' compensation premium has been driven up by 70 percent by pending workers' comp claims.

In the case of Covina's Custom Stamping, factors that developed in recent years finally combined to provoke its move to Nevada. For one thing, crime got worse. And Nevada's business costs looked far preferable to California's. Health-insurance premiums, which run to $8,000 per employee per year in California, will drop by half for Custom Stamping in Nevada, and workers' compensation insurance will be two-thirds of the $12,000 the firm paid monthly in Covina.

What's more, Nevada doesn't tax income of individuals or businesses.

Also important to Custom Stamping is pending Nevada legislation that would bar employees from suing employers on grounds of stress and other presumably nuisance reasons. A former employee who was earning $36,000 is saying he was terminated unjustly and is suing for $1.7 million, plus punitive damages. "How many times does $36,000 go into $1.7 million? How much is a person supposed to get?" asks Woody Wurster, who owns the company with his wife, Jeannette.

Then there are California's environmental regulations, which extend down to the smallest businesses and provide for fines of up to $25,000 for some violations. One regulation, for example, required Custom Stamping to dispose of waste machinery oil at least every 90 days,

which meant it had to pay $600 for disposal of about 45 gallons. The company raised the logical question: Why not simply store it twice as long and effectively pay half as much to have it hauled away?

Says Jeannette Wurster: "I've written to the legislature. I've written to Gov. Wilson. I said we're getting ready to move. I say we're going to *leave the state of California*."

The response came from a bureaucrat, says Wurster. "He says there's nothing he can do about it. He says, 'I'm only here two years from New Jersey.'"

Other examples of pressure on employers abound. The 1,000 California firms responding to a survey by Kemper National Insurance Companies reported that they had laid off or decided against hiring a total of 10,000 workers because of workers' compensation costs. The companies cited fraud as the principal cause of that work-force reduction, an average of 10 jobs per company.

Statewide, annual employer costs of premiums and self-insurance for workers' compensation have gone from $4.2 billion to $10.6 billion over the past decade. (See the chart on Page 22.)

"The system is out of control," says Michael Hoy, Kemper's Western Division president, based in Folsom, Calif. He says some sectors of the medical, legal, and vocational-rehabilitation fields view workers' compensation as "a big money machine." The California Workers' Compensation Institute, an independent research organization, says that litigation costs take up 20 percent of expenditures under the compensation program.

Hoy points out that California law requires that only 10 percent of a claim of disability attributed to stress be job-related. He says the compensation benefits are simply "too easy to access."

Another example of the regulatory problems faced by employers is the recent $1 million damage award to a man who had alleged sexual harassment by a female supervisor. An award of that magnitude was possible because California, unlike the federal government and most other states, has no ceiling on potential awards in such cases.

Business defections stemming from excessive regulation—or any other reason—are the last thing California needs right now. From a dynamo creating an average of 300,000 jobs a year in the 1980s, a total of 3 million for the decade, California now is losing them at a furious pace—estimates range to 1 million over the past three years alone. Unemployment in Los Angeles County hovers at 10.2 percent, more than three points above the U.S. average. And the California economy would have to create 250,000 jobs annually just to absorb the immigrants—57 percent of the U.S. total—from Mexico, Japan, Korea, and China arriving in California.

The costs and other problems of dealing with a fast-expanding population are going to grow substantially. The state finance office estimates that California will have 63.3 million people by 2040, more than double the present number.

Some economists and most California politicians initially rejected the prospect that the state—long recognized as an engine of permanent growth—had encountered basic difficulties. Their state's $780 billion economy, they pointed out, is the seventh-largest in the world and subject to the same cycles that affect nations. But the reality is that the state faces "a significant restructuring of the economic base," says Jack Kyser, chief economist for the Los Angeles County economic-development corporation.

Another factor is the sharp decline in defense spending in a state where defense contracts and military bases have been major economic factors. Aerospace and high-tech jobs in Los Angeles County alone have dropped from 301,000 in 1985 to 185,000, with further cuts expected. Seventeen California military bases, with 140,000 civilian jobs and a combined annual payroll of $4.2 billion, are slated for closing, and 10 more installations were added to the list this year.

The defense cutbacks are not the result of any state policies, of course, but the extent to which those policies have reduced the number of nondefense jobs contributes to the problem.

Even companies born and bred in Silicon Valley are reacting similarly to California's business climate. Cypress Semiconductor of San Jose, a supplier of chips to the workstation and supercomputer markets, went offshore in 1992, opening a low-tech assembly plant in Thailand that will save $17 million in costs this year, says CEO T.J. Rodgers. For one thing, wages will drop from $10 to 50 cents an hour. More to the regulatory point, Rodgers says he got the Bangkok plant up and running in less time than it takes to obtain local government approval to install an awning in San Jose.

And in April, Intel Corp. chose its 25th anniversary year to deliver a stunning blow to California. The company, whose sales of $5.8 billion make it the largest U.S. maker of microprocessors, is building a $1 billion, 1,000-employee factory in Albuquerque, N.M., where it already has two plants and 2,400 employees. Although Intel is spending $400 million to expand a chip-making plant near its new Santa Clara headquarters, the much larger project went out of state—despite vigorous countering efforts by Gov. Wilson and Julie Meier Wright, the former aerospace executive who is California's secretary of trade and commerce.

In the end, says Bob Perlman, the Intel vice president who headed the team that recommended New Mexico to Intel's directors, there was little the state's officers could do. The California sales tax applies to production machinery, and that alone would have cost Intel some $65 million. New Mexico does not impose such a tax.

Says Perlman of New Mexico's advantages in this case: "If the other location is equally attractive and cheaper, it's a no-brainer. We sure like to be nice to our

PHOTO: T. MICHAEL KEZA

Janet Dean Baszile and Barry Baszile *want to keep their metals-service firm in California but say pressures such as workers' compensation costs are making that difficult.*

community and our employees and our customers, but the first allegiance is to the shareholders."

Why is this happening in the closing years of the century that made California a destination of such promise and appeal? Although there is consensus that external economic conditions such as the end of the Cold War play a big role, there is an almost equal consensus that the state has brought many of its problems upon itself. Even Wilson admits that California suffers from "self-inflicted wounds."

Dennis Morin, president and CEO of Orange County's fast-growing Wonderware Software Development Corp., says, "The California government is shooting itself in the foot."

In Southern California, there are 72 "permitting agencies" at local, state, and

PHOTO: T. MICHAEL KEZA

California Chamber Chairman *Woody Godbold, who moved two of Zero Corp.'s plants to Utah last year but wouldn't do so now, sees Los Angeles' new subway and a brightening legislative picture as signs of improvement in the state's business climate.*

The Resident Raider

Chuck Paskerian is a 60-year-old former California businessman who lives in Orange County but who now works full time to enrich Spokane and inland Washington state by persuading discontented companies to leave California.

Though other states wooing California businesses have full-time economic-development staffs that make regular forays into California, only a few have resident raiders like Paskerian.

Paskerian works trade shows in Southern California like the one earlier this year in Anaheim called Trends 2000, where 34 industry-hunting groups from as many states talked to some 400 interested California companies. He also combs prospect lists sent by fax to his home from the Spokane Area Economic Development Council, his employer.

With his long experience with California—including a stint for an MBA at Stanford and 20 years in the plastic-packaging industry, which put him in contact with many other industries—Paskerian has a head start over neophyte competitors who know only what they've read or been told. "I've been living in California 30 years," he says. "I just talk to people I know."

Currently, Paskerian is working with 20 companies that are entertaining the idea of moving. Sensitive to employee and customer reactions to what they are doing, the companies are reluctant to talk about their intentions publicly—at least until their plans are further along.

Nonetheless, their chief reason for considering a move, they generally say, is regulations rushed through with no consideration of their impact on the business community; it's not so much regulations themselves but the accompanying paperwork, processes, and bureaucratic bumbling, they explain.

Few companies that approach Paskerian are having severe economic difficulties; most are doing well but simply want to do better.

Paskerian's pitch can be powerful: Spokane's workers' comp costs can be as much as 90 percent less than California's. Housing is half as costly. Average wages aren't that far below California's, but there are no personal income taxes, and other taxes are minimal. The city has 377,000 residents, is pro business, and offers an orchestra, three colleges, and an opera.

If necessary, a company can go through the permitting process and erect a plant in six to nine months, compared with years for California.

Spouses of executives and other employees can influence a family's—or even a company's—decision on whether to move and usually are hesitant to pull up stakes, says Diane Paskerian, who monitors her husband's activities. Recognizing that, the Spokane development council attempts to garner the favor of spouses. Says Diane: "Once they go up there and see the family life and the beautiful homes—probably two or three times as nice as the one they have in California—well, there have been wives who have made a decision for the husband."

PHOTO: T. MICHAEL KEZA

Chuck Paskerian *works in California to lure firms to Washington state.*

Paskerian says he has no qualms about inducing firms to leave California, a state he says he still loves. He has two sons in the California university system and two who are graduates. "You know, my friends said: 'Why are you doing this? Are you a traitor?' And I said absolutely not. California must recognize that it has to change. And if I catalyze that and it helps the U.S. economy, so be it. This is not just a job I'm doing to make some money. This is something I believe in very strongly."

federal government levels covering air, water, and other regulations. While no new business would have to get approvals from all of them, at least a dozen agencies might have to be approached, and the process can take months and cost up to $150,000. Eight permits are required to plant a tree in Los Angeles County. To turn that tree into furniture could call for 47 forms required to start a manufacturing business in Southern California.

The Wilson administration and the California Legislature are exploring ways to start easing burdens that the state puts on business. "What we've got to do is retain what we have and hopefully entice some new employers," the governor says.

Organizations seeking to improve the business climate toward that end include Californians Against Red Tape (CART), a consortium of business groups ranging from the Ventura County Economic Development Association to the California Chamber of Commerce.

In making five key proposals and tracing them to specific problems, CART spotlights areas that have contributed to the reasons for so much disenchantment with governmental trends as they affect business. Here are the problems and the group's recommended solutions:

Problem: Hundreds of local, state, and federal agencies regulate businesses in California. More than 70 agencies have environmental authority to regulate businesses in Los Angeles County alone. ... In addition, California's regulations often differ from federal requirements. All of this adds up to a confusing maze. ... The result? Wasted taxpayer dollars, fewer jobs for Californians, and exasperated employers looking for a way out.

Recommendation: Eliminate regulatory duplication and overlap that waste taxpayer dollars, cost California jobs, and add nothing to environmental protection.

Problem: Many California agencies are self-funded, relying entirely on the fees and fines they can collect for their survival. Allowing fines to be used to support a regulatory agency's budget encourages bureaucracies to put a premium on the number of fines imposed. ... Too often, fee hikes represent the desire to protect or expand agency budgets, not the actual cost of regulation. ... This built-in incentive to increase the fines collected along with a lack of budget oversight has led to alarming escalation in the size of fees and agency budgets.

Recommendation: Stop the explosive increases in fees; ensure that existing fees represent the actual cost of regulation rather than the cost of keeping the bureaucracy alive.

Problem: Many bureaucrats who work for regulatory and permitting agencies look upon employers as "the enemy."

Recommendation: Promote a more efficient permit and regulatory system, eliminate the hostile attitude many agencies have toward employers.

Problem: Too often, the input of industry and other outside scientists is discour-

Destination: Utah

Just as Brigham Young and his hardy band of 148 Mormon followers chose Utah as their new home 146 years ago after a grueling 1,300-mile westward trek from Illinois, a growing number of California companies are also looking to the Beehive State.

Since 1989, 13 companies have disassembled themselves in California and reassembled at various locations in Utah, joining nationally known companies already in the state, such as WordPerfect in Orem, Novell in Utah County, and IOMEGA and Thiokol in Weber County.

Peter Metcalf, 37, CEO of Black Diamond Equipment, a maker of carabiners, harnesses, camming devices, and other gear used by climbers in this summer's high-altitude box-office thriller "Cliffhanger," moved Black Diamond and 48 of its 65 employees from Ventura to the Salt Lake City area a couple of years ago.

The move put Metcalf's company in the middle of a skier's and climber's paradise—which is also one of the best product-testing arenas it could have in North America. Result: Sales have expanded to $11.3 million from $8.4 million last year, mainly to specialized retailers who cater to serious alpinists.

For Black Diamond's headquarters, Metcalf worked out a deal to buy an abandoned "Scandinavian" shopping mall and village for a bargain $1,050,000, with financing through Utah industrial revenue bonds held by Zions First National of Salt Lake City. Zions also lent Metcalf

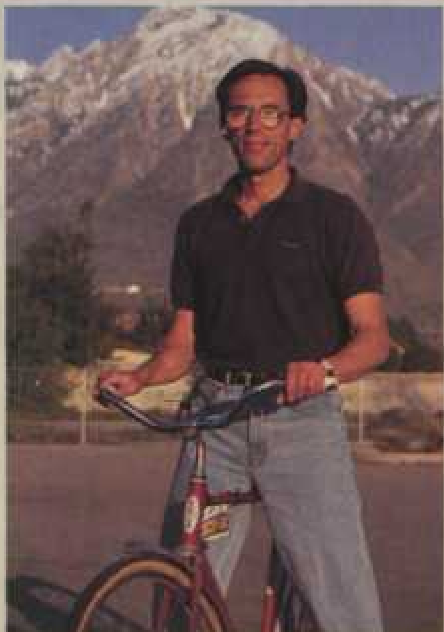


PHOTO: STEVE KELLY—BLACK STAR

Peter Metcalf *moved his climbing-gear company from California to Utah.*

$350,000 for moving and improvements. The deal, says Metcalf, "was one of the things that convinced me to come to Utah."

Among other pluses: Black Diamond's workers' compensation premium is about $75,000 a year less than what it was in California, even though the company has increased employment to 98 people. Lower housing prices enabled many of the erstwhile Californians to buy houses, some for the first time.

Other business transplants from California report similar successes. Elaine Barnes, president of the Arrowhead International dental lab, says from her office in the firm's new $1.7 million building: "In California, our employees couldn't park their cars outside like you see here or they'd be ripped off."

Much of this is happening with the vigorous promotion of the Economic Development Corporation of Utah, which is funded by businesses and other private groups and, with the help of influential politicians, sells the state as "metropolitan Utah."

Jan Graham, the first woman elected as Utah's attorney general, said at a briefing for visitors not long ago: "You can have what I call a 'normal' life here. You can have a good job and have a safe neighborhood for your children. That's becoming a bit unique in this world."

There are some downsides. One is loss of sales from California markets for some companies. Though it saved $3 million in business costs such as workers' comp, Natter Manufacturing Inc., a maker of precision metal parts for computers and telecommunications, lost $8 million to $10 million in California business "because we moved out of the state," says owner Tony Kiss Sr.

In addition, just the act of moving was a major headache. Says Earl Jess, materials manager for Natter, whose 691-mile move from Temple City to the Salt Lake City area cost $1.2 million and took up 14 oversized highway loads requiring permits from three states: "It's something I never want to have to do again."

Warning For The Nation

aged or ignored, and the work of state scientists is questioned by industry and academic scientists. Result: Regulations are adopted with limited scientific input.

Many of California's regulations are developed with little consideration given to the marginal costs and benefits. In some cases, as much as 80 percent of the goal could be achieved for a fraction of the cost while saving jobs at the same time.

Recommendation: Open the regulatory process to ensure policies are based on the best scientific knowledge available, marginal costs as well as benefits are considered, and employers are given some flexibility in meeting regulatory goals.

Problem: The original goal of the California Environmental Quality Act (CEQA) was to ensure that the environmental impacts of projects would be considered. The reality has become a costly, time-consuming, cumbersome process that too often stops legitimate projects while doing little to advance CEQA's original goal. CEQA is administered by multiple agencies and, according to the state's Council on Competitiveness, there is no limit on the number or type of reviews that a local jurisdiction may require.

Spending two or more years obtaining a government permit is not uncommon. The entire commercial life span of many of today's manufactured products, such as computer chips, is but one or two years. California manufacturers cannot effectively compete under those circumstances.

Recommendation: Streamline CEQA and environmental-permit processes to meet their goals without causing unnecessary costs or delays to legitimate projects.

Given the seriousness of the business-climate situation that is reflected in those recommendations and their rationales, business is optimistic that the state government is now receptive to corrective action.

Several of the business proposals in the regulatory and other areas have been introduced in the state legislature. Economist Kyser says that "you finally have the recognition in Sacramento that workers' comp is a significant issue." Many bills would severely limit, though not eliminate, the stress claims that have been a source of expensive litigation to many employers.

Critics find the legislative initiatives encouraging. Woody Godbold, CEO of Los Angeles' Zero Corp. and chairman of the California Chamber, sees them "as symbols to the people who have jobs here that this is going to be a reasonable place and a competitive place to have your business."

California state employees *were paid with vouchers during a budget crisis last year.*

Zero, a 41-year-old maker of stylish aluminum carrying cases under the Zero and Halliburton labels, with 1992 sales of $160 million, moved two of its nine California plants to Salt Lake City last year but deferred relocation of a third when Godbold became optimistic that the California business climate was improving.

Godbold, who is also a lawyer, says that if he had to execute the incredibly intricate $6 million move all over again, he wouldn't. "Things are happening to move California in the right direction," he says. "The legislature is fully aware of what's going on."

For her part, Trade and Commerce Secretary Julie Wright says companies who are thinking of leaving California should think again.

The state chamber's Kirk West agrees. Steps needed to improve the business climate make up a challenging agenda, he says, "but California is more than equal to the task—we have a phenomenal brain trust, a diverse economy, one of the best higher-education systems in the world, an ethnically diverse population, superb location on the fast-growing Pacific Rim, and a spectacular asset in our climate, coastline, and natural beauty."

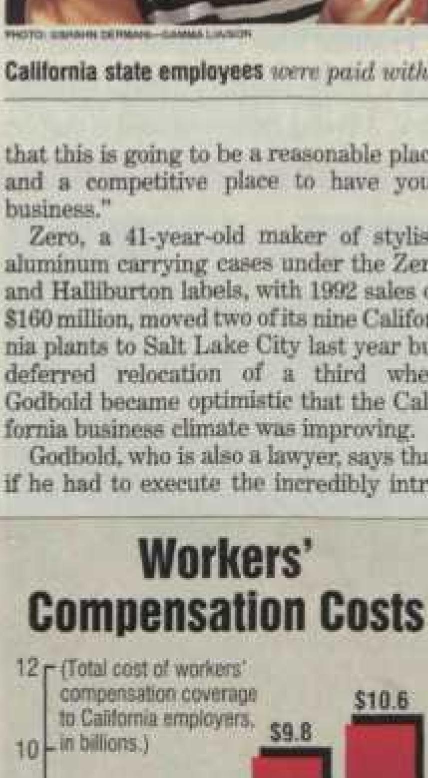
West and business leaders generally emphasize the key role of government in bringing about the turnaround they believe is possible.

Just as the results of the state's moves toward greater business regulation and government spending serve as a warning to other states considering those routes, the fact that an improved business climate is crucial to recovery also sends a message to those states.

"Now is the time for action," says the state chamber official. "All the business community has to do is show a unity of purpose—a determination to work with the legislature, the governor, and other concerned groups to solve California's problems."

That type of concerted effort, West predicts, "will put California back to work." NB

Workers' Compensation Costs



(Figures include both insurance premiums and self-insurance, which is approximately 20 percent of total annual workers' comp expenditures.)

SOURCE: CALIFORNIA WORKERS' COMPENSATION INSTITUTE

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Health-Reform Watch

A coverage option that may vanish; HMOs on a roll; a California model for small business.

By Roger Thompson

SELF-INSURANCE

Going, Going, . . . Gone?

Thousands of small firms serve as their own health insurers, paying medical claims out of their own pockets. But the Clinton administration's health-care reform plan most likely will eliminate this self-insurance option for all but the largest companies.

Under the Clinton plan, individuals as well as small and medium-sized businesses up to 1,000 workers may be required to purchase health insurance from regional cooperatives called health alliances. Companies with more than 1,000 employees would be exempt and could continue to self-insure.

Self-insurance advocates are lobbying hard to preserve the option for much smaller firms as well. At the same time, unions are lobbying to eliminate self-insurance entirely.

"Our position is don't force-feed reform on business," says James A. Kinder, executive vice president of the Self-Insurance Institute of America, an industry trade group based in Irvine, Calif. "If they [reformers] build a better mouse trap, let employers come to it voluntarily." Kinder advocates allowing any business, no matter what size, to self-insure.

Sean Sullivan, president of the National Business Coalition on Health, based in Washington, D.C., favors setting the minimum size for self-insurance between 100 and 300 workers. The coalition represents 60 business groups nationwide that have assembled pools of large and midsize companies to act as health-care purchasing cooperatives. Most employers in these business coalitions self-insure.

Determining who may have the option to self-insure "is a really critical question" for health reform, says Walter Zelman, a senior health-policy adviser to the Clinton administration. There is apprehension within the administration that young, healthy groups would opt to self-insure to get lower health premiums. That would drive up the alliances' costs because they would be left with groups whose members would be older and possibly in poorer health.

Union leaders argue that allowing companies to seek cheaper rates through self-insurance would undermine the effectiveness of the health alliances.

Self-insurance became standard practice for large companies over the past decade. It permits firms to escape paying state insurance-premium taxes and exempts them from state-mandated benefit laws, which now number more than 1,000 nationwide. Self-insurance also gives the employer more control over plan design.

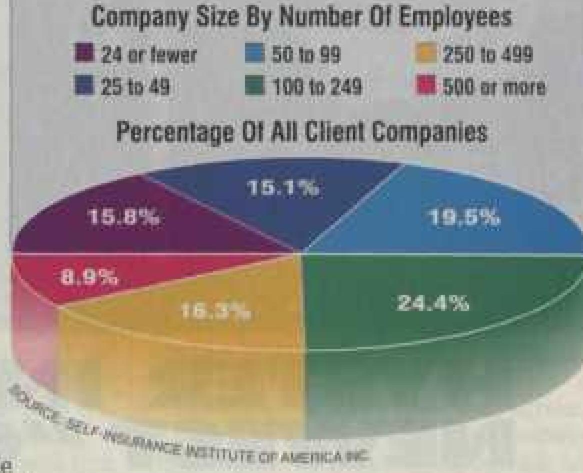
Among companies with more than 1,000 workers, 80 percent self-insured in 1992, according to a survey by Foster Higgins, a nationwide consulting firm.

But many small companies also have switched to self-insurance. A 1992 survey of firms that process claims for self-insured businesses turned up more than 20,000 small, self-insured companies, more than half with fewer than 100 workers. (See the accompanying chart.) The survey was conducted by the Self-Insurance Institute of America.

Whatever the final cutoff for requiring companies to purchase insurance from the health alliances, the president's reform plan may not settle the issue. The plan may give states the option to set a higher or lower limit.

Distribution Of Companies That Self-Insure, By Size

In a survey, third-party administrators handling 22,306 self-funded health-insurance plans categorized their client companies by number of employees:



TAX SUBSIDIES

It May Be Farewell For Your Flex Plan

Flexible-benefits plans used by millions of employees to set up tax-free reimbursement accounts for health-care expenditures appear headed for extinction under health reform.

Although the White House has been mum about flex plans, most observers assume that tax-law changes needed to finance the Clinton administration's reform plan will sweep aside the federal tax subsidy represented by flex plans.

"No one has said it, but looking at what they are trying to do with the tax code, it is likely that those kinds of [pretax reimbursement] accounts will no longer be available," says Bill Custer, director of research for the Employee Benefit Research Institute, in Washington, D.C.

Flex plans permit employees to set aside pretax dollars to pay their share of health-insurance premiums and to reimburse themselves for out-of-pocket expenses not covered by insurance. Thousands of small companies have set up flex reimbursement plans in recent years. Estimates of employees covered by flex reimbursement plans range as high as 40 million nationwide, says Ken Feltman, executive director of the Employers Council on Flexible Compensation, based in Washington, D.C.

Many health-care reformers regard flex pretax reimbursement accounts as a tax loophole that must be closed, says Feltman. Flex plans that use after-tax dollars will survive reform.

HEALTH-CARE DELIVERY

HMOs Continue To Grow

Enrollment in health-maintenance organizations (HMOs), which are odds-on favorites to be big winners under health-care reform, grew to 41.4 million in 1992, up 2.8 million from the year before.

The annual HMO survey conducted by the Group Health Association of America showed that 18.8 percent of all insured Americans rely on HMOs for health care.

Enrollees in HMOs accounted for over 20 percent of the insured population in 13 states, led by California, where 41 percent of those insured are in HMOs. (See the accompanying chart.)

HMOs are widely regarded as cost-effective models for health-care delivery. Last year the average cost per employee of a traditional health plan was 23 percent higher than the average HMO cost—$4,080 compared with $3,313—according to a survey by the Foster Higgins consulting firm.

Most HMOs operate as specialized health-insurance companies, providing medical services for a fixed annual fee. HMOs emphasize preventive care, and those operating under federal guidelines must accept all applicants. ■

States Ranked By Percentage Of HMO Enrollees

	Percentage Of Insured Covered By An HMO	Number Of HMO Enrollees
California	41.0%	10,285,877
Massachusetts	37.7	2,006,142
Arizona	37.1	1,175,046
Minnesota	32.8	1,335,643
Oregon	32.2	827,655
Maryland	28.0	1,191,997
Rhode Island	27.3	245,984
Colorado	24.8	779,563
Hawaii	24.8	267,300
Wisconsin	24.7	1,122,951
Connecticut	22.6	685,907
New York	21.0	3,331,758
New Mexico	20.0	250,221

SOURCE: GROUP HEALTH ASSOCIATION OF AMERICA

PURCHASING ALLIANCES

Another First For California

While Congress prepares to debate the concept of health-insurance purchasing cooperatives, California has raced ahead to set up the nation's first such co-op for small businesses.

Beginning July 1, companies with five to 50 workers will be eligible to purchase discounted, standardized health plans from any of 18 insurers who are participating in the program.

Gov. Pete Wilson has announced that premiums for the Health Insurance Plan of California (HIPC) will be 6 to 23 percent lower than premiums offered by the giant California Public Employee Retirement System (CALPERS), which insures more than 800,000 public employees and retirees. CALPERS uses its market clout to negotiate what are considered highly competitive premiums.

Rather than mandate employer participation, the California plan is voluntary. Employees may choose any of the health plans and cannot be denied coverage because of medical conditions. ■

PAYING FOR REFORM

A 50 Percent Tax Rate?

Small-business owners could wind up with a 50 percent tax rate under President Clinton's proposed tax hikes for deficit reduction and health-care reform.

Clinton's deficit-reduction package proposes to raise the top federal tax rate to 36 percent for married couples earning more than $140,000, or for individuals earning more than $115,000.

A proposed 10 percent surcharge on income over $250,000 would boost the top effective rate to 39.6 percent.

Add to that a possible 10 percent payroll tax to cover the cost of health care—the financing proposal most favored by the White House in late May.

Finally, add the 2.9 percent Medicare tax that, under the president's plan, would apply to all earned income.

That brings you to a top federal tax rate of 48.9 percent for those under the surcharge limit, or 52.5 percent for those paying the surcharge.

"If you are a sole proprietor, or an S corporation, or a partnership, you'd get clobbered by higher taxes," says Albert B. Ellentuck, a tax lawyer and partner in the Washington, D.C., firm of Colton and Boykin. (For more on the tax proposals, see For Your Tax File, on Page 73.)

In addition, the 12.4 percent old age Social Security tax (normally split by employer and employee but paid in its entirety by the self-employed and partners) applies to the first $57,600 in earned income, and state taxes average an additional 5 percent. At least the state tax burden is a deduction against the federal tax obligation.

Robert Laszewski, president of Health Policy and Strategy Associates, a Washington, D.C., consulting firm, says the health-care payroll tax is a particularly bad idea for small business. Take, for example, a business owner earning $130,000 a year. A 10-percent payroll tax would mean paying $13,000 a year for health care, compared with a nationwide average of $4,000 in 1992. ■

THE CLINTON PLAN

The Chamber Withholds Judgment

Although the U.S. Chamber of Commerce has endorsed managed competition as the framework for national health-care reform, it is withholding judgment about the Clinton administration's plan until its full details are made public.

Chamber officials have been invited to the White House on several occasions recently to voice their concerns about the shape of the administration's reform package. And they have made it clear that there are several areas on which the business federation is unwilling to compromise. The Chamber opposes:

- A health-insurance mandate that does not include adequate subsidies for lower-wage workers and their employers. A mandate that forces job loss and business failure is unacceptable.
- Federal price controls.
- A lavish, and therefore very expensive, package of standard benefits. The administration appears to be developing a very costly benefits package, which the nation cannot afford.
- Financing based on unrealistic levels of new taxes.
- Elimination of self-insurance as an option for large employers.
- Reform efforts focused strictly on the private sector, without applying cost-control measures to public programs such as Medicare and Medicaid. NB

TECHNOLOGY

All The Comforts Of A Home Office

Whether you're there full time or part time, you should take your work space seriously.

By Ripley Hotch

It may sound like a dream: You work at home, saving all the time and money you now devote to commuting. You have more time with your family, but you still get lots of work done, because you're not plagued by the endless interruptions that are part of office life.

Working at home can be a dream come true—or just a necessity. Either way, it is happening often. Corporate downsizing has cast adrift many highly skilled managers—perhaps as many as 3 million—and a lot of them would rather consult or start a small business at home than plunge back into the corporate whirl.

Steve Corwin, who operates his own accounting practice from his home on Syosset, Long Island, N.Y., started planning his home office when he realized that he did not like working in a corporation and that "eventually my job was going to be on the chopping block." He has never regretted the move into his home-based business.

"We see this home-office market as a huge market, and one where the trends say the market will grow," says George Everhart, vice president and general manager of Apple Computer's business markets division.

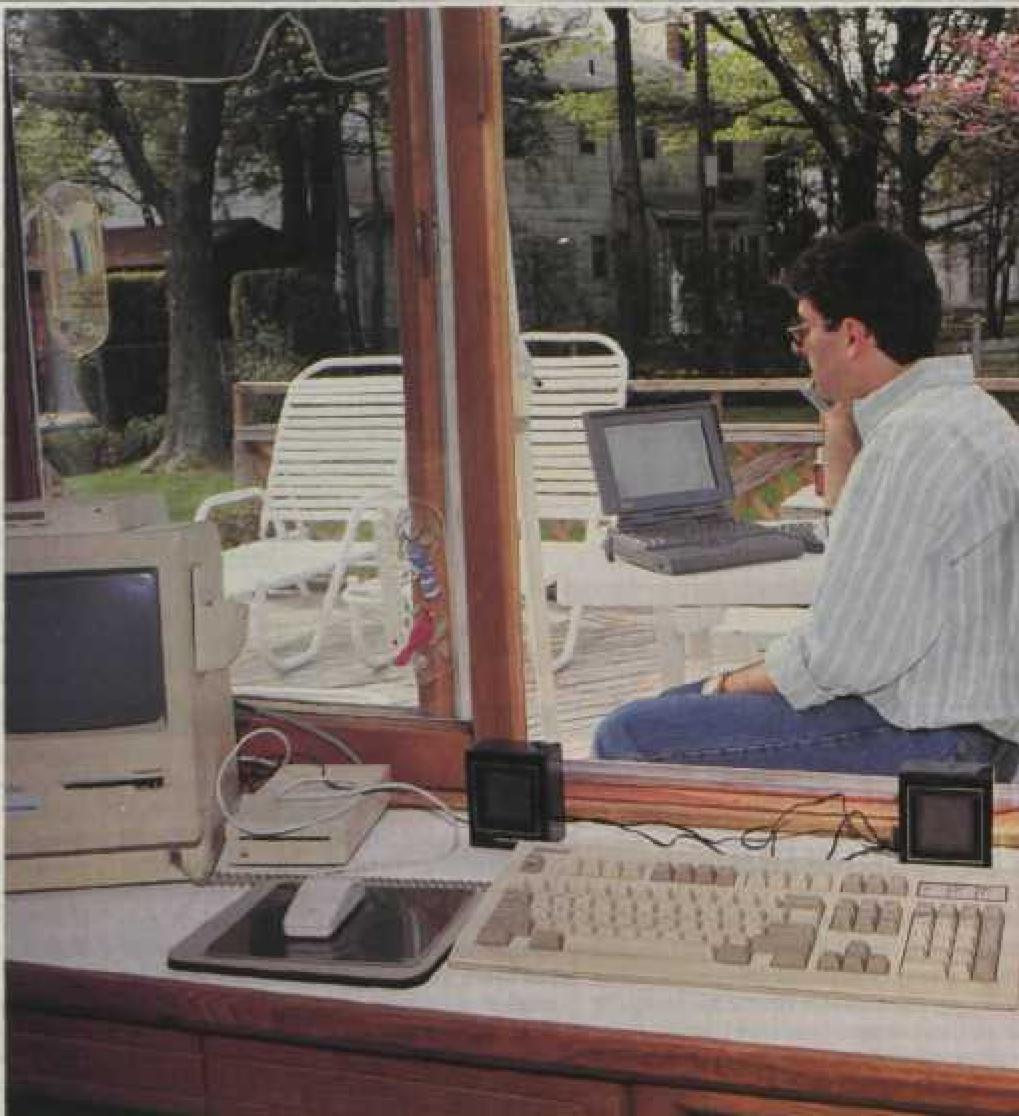


PHOTO: BALAN DOROW

Accountant *Steve Corwin has networked his entire home so that every room can be an office.*

Paul and Sarah Edwards of Santa Monica, Calif., have been researching, writing about, and practicing working from home for a decade. They manage a working-from-home forum on a national communications network, CompuServe. They estimate that the number of people working at home—including full-time home-based businesses, people working part-time at home, and telecommuters—totals about 30 million.

As different as those groups may sound, in actual practice they face virtually the same challenges in managing their home offices.

The adjustment may be hardest for corporate refugees, who lose a lot of support they've come to expect: a secretary or secretarial pool, a resident computer expert, a big copying machine, and—perhaps the biggest jolt—enough storage space for files and equipment.

Making room for your equipment may take you down a path you didn't expect to travel. Art Detman, a free-lance writer who works out of his San Francisco-area home, laughs when he talks about buying a computer 10 years ago to save time. His office outgrew the spare bedroom, and he eventually built an addition to his home to accommodate it—and while he was adding the office, he threw in a couple of new bedrooms as well. "This money-saving technology has put me in debt for the rest of my life," he says, not entirely as a joke.

Computer technology does in fact make it possible for you to run an efficient and professional office at home—but it won't create one for you on its own. That takes some thought and planning on your part.

Those who have home-based businesses, and those who advise them, agree on some important guidelines for newcomers, as spelled out on Page 28:

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Make Sure It's Legal

Not all jurisdictions are friendly to home-based businesses. Some communities won't even allow home offices set up simply for work you bring home from your "real" office.

Even when the restrictions are not that severe, there are usually zoning regulations that govern parking, how many people may come and go, and what types of businesses are allowed in residential neighborhoods.

There may be other kinds of restrictions as well. For example, if your neighborhood allows home businesses but not signs, you shouldn't open a shop that needs a sign.

Make Sure It's Deductible

Your home office must be clearly separate from all other home functions, or the Internal Revenue Service will disallow the deduction for home-office expenses. Your home office can't do double duty as a den or a bedroom. (See "Hardening The Rules On Home Offices," March.)

Make It Fit You

Make the home office an important space, says Jack Miller, president of Quill Corp., the giant Palatine, Ill.-based mail-order office supply house. Like any other important space in your home, the home office should be tailored to suit your preferences.

Miller doesn't like the sound of the fan in a computer, so he has put the box in a closet and run the cable to his desk; that way, all he sees is the monitor and keyboard, and neither he nor his telephone callers hear the whirring fan.

You don't have to accept a desk as a retailer shows it to you, says Miller. Instead, you can have one customized to meet your needs.

For example, he says, "if you want more filing space, you may want a desk with two filing drawers on each side."

Think About Space

Many space-saving pieces of equipment are becoming available, as more and more office suppliers design with the home in mind.

Fellowes Manufacturing, in Itasca, Ill., has created home-office furnishings that provide compact ways to handle common paperwork storage requirements. "Organize your supplies to get the job done," says Barb Guzzardi, Fellowes' home-office-products manager.

"Without question, you should use lateral files," says Miller. "You want to get maximum capacity into minimum floor space. The best is open-shelf filing with no drawers to pull out."

Think About Time

You are the CEO of your company, certainly, when you have a home-based business, and that's one of its main attractions. But you're also the chief clerk. "You need to increase productivity," says Guzzardi, "because when working at home, you might have family members with personal interruptions. You don't have the support staff, and without that you become a very independent contractor."

All the things you've heard about time management but never wanted to try are doubly true for the home-based entrepreneur. Don't let paperwork pile up; clean your desk at the end of the day; file only those items that are essential; don't fall into long phone conversations. (Some home-based entrepreneurs turn off the telephone from time to time).

Pick The Right Printer

You will need a printer, and possibly a copier. They cost money and take up space, so think carefully about what you will need. For very-high-quality documents, you will want a laser printer. For less cost, you can get almost-as-good reproduction from the new series of ink-jet printers, which are selling briskly this year.

You may not need to go to the expense of a laser printer, however, and a laser might even be counterproductive if you produce multi-part forms or need a wide carriage for spreadsheets. New dot-matrix impact printers are following the lead of Panasonic, the first manufacturer with a quiet dot-matrix printer.

P.J. Johnston, product manager for Panasonic's dot-matrix printers, suggests that the new 24-pin printers can give you much versatility for a lower price than the laser. If you need color, says Johnston, "dot-matrix color is good enough that 50 percent of our color-capable printers have color kits sold with them."

Buy A High-Quality Fax

"You must have a fax," says Steve Corwin. "You cannot function without a fax or a fax modem. It's your main [means of] communication other than the overnight express services. And you need a dedicated phone line for it."

Fax machines vary enormously in price and functions. Buy the best you can afford. Newer machines are offering more functions at lower cost, echoing the cost/performance curve of personal computers. Sharp, for example, is targeting the home market with its NX-1 Home Fax, which scales some big-office features down to home-office size. The system uses an automatic fax/voice switch so it can handle both telephone and fax functions on a single phone line, and it can also serve as a low-volume copier producing quality photo or line-art reproductions.

The phone component includes a 20-number auto dialer, five speed-dial positions, and a memo-pad function so you can enter phone numbers on the system and then print them out. Plus, the NX-1 has a built-in call timer, and a Call Tracking report so you can print out the date, time, number, and elapsed time for up to 300 calls. This latter feature can be useful in handling billing from your home office.

The NX-1 mounts on a desk or wall, and it can transmit a fax page in approximately 13 seconds. List price is $496.

Fax modems can be trickier, but they combine the modem function—essential for getting to on-line services with all their databases and advice—with fax receiving and sending. If you are trying to do all of that, plus voice calls, on one line, you may have problems.

But there are a number of products that will combine them all reasonably well: the Intel FaxModem and Faxability software; The Complete Communicator, from PC-Complete; TyIn 2000, from National Semiconductor; or the Ultima Home Office, from Prometheus.

Be Open To Technology

Some advanced users of home-office technology are pushing back frontiers in a way that may seem exotic now but will probably seem commonplace in the near future.

Steve Corwin, for one, has his house networked: Every room has an outlet he can plug a computer into, and they are all wired to his basement office. In other words, he can hook up a computer to a network connection in his bedroom and call up files on a computer in his home office. "I want to beat the rush," he says. "I figure by the turn of the century we'll all be networked whether we want to be or not." All of Corwin's computers are portables, so he can carry work wherever he wants to be, and connecting a computer to the network is so simple that even his young children can do it.

Find New Connections

"Ease of use is more important at home than in the office, where you have someone to ask technical questions," says Apple's Everhart. Look for user groups—almost any town of any size has them—or check with your equipment manufacturer for seminars, support groups, or other ways of getting advice. And don't forget on-line services such as Dialog, CompuServe, and Prodigy, which offer databases covering everything from stock prices to baseball scores. NB

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MANAGING

How To Spot Bogus Bills

The poor quality of most counterfeit money makes it easy to pick out—if you know what to look for.

By Joe Dacy II

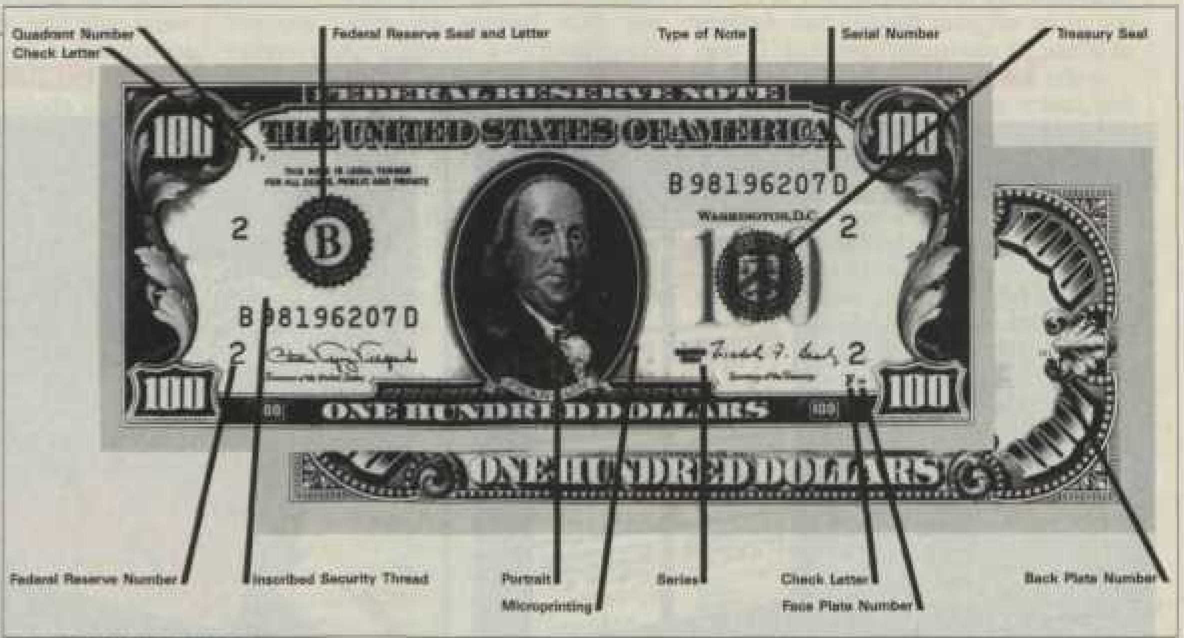


ILLUSTRATION: U.S. TREASURY DEPARTMENT

In October 1992, two teenagers handed a $20 bill to an attendant at the Tilt Arcade in Hurst, Texas. Something caused the attendant to look at the bill a bit more closely than he might have, and his suspicions were justified. The currency was phony, part of a batch created on an office copier.

An investigation by the U.S. Secret Service turned up numerous $5, $10, and $20 bills that had been passed to area businesses the previous week.

Jerry P. Patton, special agent in charge of the Dallas field office of the Secret Service, says that counterfeiting schemes like this one are on the rise, and in effect they rob the nation's businesses of millions of dollars each year.

The two most common technologies for producing counterfeit bills, according to Patton, are high-quality color copying machines—some that cost as much as $70,000—and sophisticated offset-printing operations.

The proliferation of these machines has put the U.S. Treasury Department into a high-tech race to outwit a new breed of counterfeiters.

The $20 bill is the one most commonly faked because "people take them readily," especially at businesses where the volume of cash is high, Patton says.

Bogus bills are usually of poor quality. The $5 bills passed in the Dallas-area scam were extremely light in color; the $20 bills were smaller and darker than real currency and didn't have the proper texture.

Counterfeiters rely on their victims' inattention more than their own skill. That fact and the advent of two highly effective security techniques can give business owners the upper hand in detecting unlawful tender.

Joe Dacy II is a free-lance writer and sheriff's deputy in Texas.

The first new technique, called microprinting, appears on the rim of the portrait. The words "United States of America" are repeated along both sides of the portrait. Without the aid of magnification, this printing is discernible but not large enough to read.

The second technique is even more helpful in spotting bogus currency. A clear, thin, polyester thread is impressed into the bill. Embedded in the paper itself, this thread runs vertically through the clear field at the left of the Federal Reserve seal. Printed on the thread is a repeating denomination identifier. On the $50 bill, for example, the identifier "USA 50 USA 50" appears along the length of the thread.

Since 1990, this security thread has been incorporated into all bills except the $5 and $1 bills.

These threads are invisible unless the bill is held up to a light. Backlighting a new bill provides a quick and easy way to determine if it is counterfeit.

Neither of these features, according to currency experts, can be reproduced accurately on an office copying machine. Counterfeiters, however, still haven't stopped trying to beat the new system, Patton says.

Nonetheless, there are other ways to spot fakes. One rule of thumb: If a bill doesn't look right, it probably isn't.

Special Agent Dave Butler of the Secret Service's Washington, D.C., office provided these tips for spotting counterfeit bills:

■ Inspect the paper. Genuine paper is 100 percent cotton rag with a distinctive texture. Embedded in the paper—not printed on the surface—are several very tiny red and blue fibers.

■ Clarity and detail are the trademarks of U.S. currency. For instance, the small sawtooth points designed as the outermost edge of the circular Federal Reserve and Treasury seals are clear, sharp, even, and unbroken. (See the illustration above.) Also pay special attention to the scrollwork, crosshatching, and outer margins of the bill.

■ All the numbers and letters on currency have a unique style, with even spacing and a sharp, clear image.

■ Compare the suspected counterfeit bill with one that you know is real. Look for differences—not similarities—in color, size, uniformity, and printing quality.

If you find an ersatz bill, Butler says, try to delay the passer; do not return the bill to the person.

Write down a complete physical description of the customer, and call the police.

Secure the note in a protective envelope, and surrender it only to law-enforcement officials.

A little knowledge and a lot of attention can keep you from being taken by counterfeiters. NB

Keeping Growth Under Control

Learn how to cure your firm's "growing pains" before they do you in.

By Jacquelyn Denalli

It's a scene all too familiar to many businesses: The customer is irate. Everything that could have gone wrong with the order did go wrong. Desperately trying to salvage the account, the owner pleads: "Please bear with us. We're just going through some growing pains. It won't happen again."

But it probably will happen again—and again—because many owners of growing companies don't really understand what's wrong. They can't figure out why a once-successful business now routinely fails to deliver.

"Growing pains" are accepted by many as a natural part of a business's upward progress. But when growth becomes painful, your business is sending you a signal that it has probably reached the point in its life cycle when failures occur easily. It's the point when the company's staff or operational structure—or both—can no longer measure up to the company's rising demands, and the results are breakdowns in customer service and product quality.

PHOTO: EDUARD HALL

Foreign-language teacher *Carey Stacy founded an instructional firm and created a management system that functions on its own, regardless of who is staffing it.*

At this point, you have three choices: Learn to manage business growth effectively, sell out, or let problems eat away at profits until you are forced to close down.

You presumably wouldn't accept the latter two options, so you are left with the need to manage growth—an extremely difficult process for most small-business owners. The reason harks back to their motivation for going into business in the first place.

"A lot of people start their businesses not because they are real business people, and not because they care about going into business, but because their heart's desire cannot be accomplished through other channels," says Carey Stacy, president of Dialogos International Corp., a foreign-language service company based in Raleigh, N.C.

Fifteen years ago, Stacy was a Spanish teacher frustrated with the public-school and university systems. Denied the opportunity to use teaching methods she thought were most effective, she quit her job, opened a small office, and began teaching private students her way.

Today, with revenues exceeding $1 million and clients coming from all over the world, she says, "All I ever really wanted to do was be a good Spanish teacher, and I've not taught a class in the last eight or nine years."

Stacy's experience is a classic case of what consultant and author Michael Gerber calls a "technician suffering from an entrepreneurial seizure." Gerber, founder and chief executive officer of Gerber Business Development Corp., in Petaluma, Calif., and author of the best-selling *The E-Myth: Why Most Businesses Don't Work and What To Do About It* (Ballinger Publishing Co.), says too many people go into business believing that if they can do the work, they can successfully run a business that does that work.

But running a successful language service business requires more than top-notch teaching skills. Fortunately for Dialogos, Stacy evolved from being a technician to a true entrepreneur. Says Gerber: "Business development is crucial, and businesses that don't do it are doomed to fail. High-growth businesses simply fail with a flourish."

Recognizing Growing Pains

How do you know if growth is out of control in your business? Gerber says the signs reveal themselves in many ways: "Jobs don't get delivered on time. Costs expand disproportionately to the actual time spent on the job. You find yourself plagued with any manner and form of chaotic events. More and more is being done, and less and less is being controlled."

If this sounds familiar, stop what you're doing, step away from your business, and analyze the organization from how it began to how it got where it is now. Then begin to develop a business that works as an integrated system.

"You have to stop and take a holistic view of the business," Gerber advises. "Bring your top people into a session where you take the business apart functionally, financially, and organizationally, and put it back together from a systems perspective."

Building Management Systems

When a company is dependent on one or a few key individuals, growth potential may be stunted, and the company may not survive if key individuals leave. A com-

Jacquelyn Denalli is a business writer who lives in Orlando, Fla.

pany structured around accomplishing essential tasks is better equipped to tap individual talent and survive the departure of any specific person.

Stacy says the best thing she ever did for herself and her business was to serve as the national president of the National Association of Women Business Owners (NAWBO). The extensive travel required by that position forced her to turn over daily operation of Dialogos to employees.

"Up until that point, I was a hands-on owner," she says. "When I let go, we began to get jobs that we had lost before because they were piled up on my desk waiting for me to make a decision." When her term as NAWBO president ended, she says, she "came back to a business that was bigger and better than the one I left—and I have never gone back to managing in the same way. Sometimes my employees make decisions I wouldn't have made, but I'm taking more money to the bank than ever before."

Without realizing it, Stacy created a management system that functions on its own, regardless of who is staffing it. This, Gerber says, is the foundation of a successful business.

Planning For Growth

Once you have a management system in place, it needs the direction imposed by budgeting and forecasting. These functions are critical for growing companies and should be done regularly and frequently. Meaningful forecasting not only lets you prepare for business growth but also helps you anticipate and even compensate for slow periods.

Ann Blakeley, president of Earth Resources Corp., an environmental consulting and contracting firm in Ocoee, Fla., holds weekly planning sessions for representatives from each department. In these meetings, every contract, lead, and proposal is ranked.

"Everything that exceeds a certain probability goes into the forecast log," she explains. "We play out cash, staffing, and equipment requirements." The company's chief financial officer brings in a copy of the previous week's model—created on a computer spreadsheet program—and each manager makes the necessary adjustments to update the forecast. By doing a "quick and dirty" evaluation weekly and a full forecast model twice a month, Blakeley can see—and correct—potential problems before they manifest themselves as poor service to the client.

Building an initial forecast model takes time, and early projections will probably not be especially accurate. In fact, few forecasts will ever be precisely on target, but at least they provide working guidelines.

"Unless you have something to base decisions on, you can't plan," Blakeley says. "If your business is going to increase 30 percent in the next six months, you'd better start negotiating with your bank today to get the additional cash you'll need to fund that growth."

It's also important, she adds, to let your bankers know if you anticipate a dip in revenues. "Tell them you're looking at a bad month, and why, and what you're doing about it. Don't let it be a shock."

PHOTO: ©ROB DAEMMRICH

Environmental entrepreneur *Ann Blakeley, with employee Jim Hendershot.*

To get started with a planning model, do a month-by-month examination of the past year, looking at revenues, expenses, profits, marketing efforts, staffing fluctuations, and anything else that affects your business.

Once you understand where you've been, you can begin to move forward by plugging in the events you know will happen, and by considering what you think will happen. But develop the forecasts on logic, not dreams.

Involve your management team, and ask questions such as, "OK, this is what happened last month; what will be different next month?"

Finally, build accountability into your plans to make them more than a nuisance exercise. If you met your goals, great—but how and why? If you fell short in some areas and excelled in others, what happened? What can you do to make the good things better and correct the deficiencies?

"In our written business plan, we identify our strengths, opportunities, weaknesses, and problems, and we address them in the plan," says Ronal Borgman, president of the Council on Education in Management, in Walnut Creek, Calif. The company's key people are involved in developing the plan, and then they are held accountable for their performance projections.

Training Your Employees

Hiring good people is essential, but it's just the beginning. Even good people can't do their best without adequate direction and on-the-job training. Just remember, says Borgman, that "by the time you get five or 10 people, you are no longer the driving force in your company. Those five or 10 people are. You may still be the quarterback, but no quarterback ever won by himself, and neither will you."

Staffing presents a special problem for Blakeley, because of the highly specialized work Earth Resources does, she says. "I can't go out on the street and hire people who are trained to do our kind of work. I have to train them, and I have an incredible amount of time invested in people before they come up to speed."

Hiring, however, is only part of the process, Blakeley says: "One of the biggest challenges when we're adding staff quickly is communicating the values of our business to new employees. You have to not just train someone how to do their job, . . . you have to convey your corporate culture.

"When you fail to do that, you take people who are potentially very good employees and immediately turn them into medium employees, because they can't meet your expectations if they don't know what those expectations are."

Borgman agrees. "I have made the mistake in feeling satisfied that I had done a good job in recruiting and selecting a key person, and then didn't follow up sufficiently," he says.

The Process Never Ends

So what happens after you've created a system to manage your growing business? Can you move into a "maintenance mode" and relax?

Absolutely not, says Blakeley. Growth management can't stop just because things are going well.

"If things are going great, you need to know how to keep them that way," Blakeley stresses. "What are you doing right? What can you do better? You can't ever, ever get complacent." NB

FINANCE

Simpler Offerings For Smaller Firms

Simplified SEC forms for smaller stock issues could help you raise capital.

By Bradford McKee

Pierre de Champfleury *still* needed cash. As of January, his start-up fragrance firm, Erox Corp., in New York City, had received several infusions of venture capital as well as some private financing, but he had used that money for product development. Now, de Champfleury needed to finance the launch—planned for summer—of his company's new fragrance, called Realm.

To raise money for marketing, de Champfleury chose a path that effectively had not been open to companies the size of his before August 1992: He took his start-up company public. Erox raised $7 million, selling 1.75 million shares of stock at $4 a share. De Champfleury says the endeavor has been "extremely fruitful."

The public-offering strategy that de Champfleury used is available to thousands of small-business owners, yet many entrepreneurs aren't aware of the procedure.

It has become possible because of the new Regulation SB, a simplified registration process for small-business stock offerings, designed by the Securities and Exchange Commission (SEC). Introduced last August, Regulation SB and accompanying changes to federal securities laws are designed to cut the paperwork and the costs of raising capital for small firms.

A major change in the process centers on the obligatory offering statement, Form 1-A. It is now a simpler, question-and-answer format—a substantial shift from the formidable essay-style disclosure document used in the past for larger offerings.

As of late May, about 150 companies had registered their public offerings under Regulation SB, according to the SEC.

"It's a great idea," says David Gladstone, president of Allied Capital Corp., in Washington, D.C. "It's always good to have another avenue in which small businesses can raise money."

In the past, entrepreneurs like de Champfleury might have invested large sums of cash and surmounted pillars of paperwork to take their companies public. Under the new regulation, however, the fragrance maker spent $2,275 and filed 126 pages of documents with the SEC to

The Newest Small-Business Public-Offering Option

The new SB-2 registration form for small businesses' initial public offerings is available to most companies in the U.S. and Canada with revenues and, separately, outstanding securities of less than $25 million. Compare the modified Form SB-2 with the formats of S-1, which is the comprehensive registration form used for most domestic public offerings, and with S-18, the original simplified form for smaller offerings.

Registration Form	SB-2	S-18	S-1
Offering size	No limit	$7.5 million	No limit
Required financial statements (audited)	One balance sheet; two statements of income and cash flows	One balance sheet; two statements of income and cash flows	Two balance sheets; three statements of income and cash flows
Selected financial data	N/A*	N/A*	Selected financial data must be presented for five years
Management's discussion and analysis	Two years	Two years	Three years
Description of business	Developments of last three years	Developments of last five years	Developments of last five years
Supplemental schedules	Not required	Not required	Some required
Quarterly data	Not required	Not required	Some required
Certain past relationships and related transactions	Two years	Two years	Five years

*Not Applicable

SOURCE: THE GRANT THORNTON ACCOUNTING FIRM

CHART: AMY PUGLISI

FINANCE

bring about Erox's initial public offering.

The impact of the changes is that smaller firms now can afford to go public. Better yet, before making that formal decision, they can more effectively "test the waters" of the stock market to gauge the potential interest in their firms. Because of major revisions, the SEC's Regulation A now allows—with some restrictions—pre-offering statements (called prospectuses) to potential investors for offerings of up to $5 million in stock. The rule change raises the ceiling from the previous $1.5 million—a limit that often made it not worthwhile for a small firm to issue a prospectus.

One caution, however: The securities regulators in only four jurisdictions—Colorado, New York, Tennessee, and the District of Columbia—allow companies to "test the waters" before attempting to float a public stock offering. The members of the North American Securities Administrators Association Inc. (NASAA), who act as securities watchdogs in each of the 50 states, have protested what they call the "wholesale deregulation" of small-issue securities by the SEC in its easing of requirements for smaller firms.

NASAA stated in a letter to the SEC that the reforms contained in Regulation SB favor the capital needs of small businesses at the expense of small investors.

NASAA's opposition came as no surprise, securities analysts say. By making transactions harder to track, the new SEC rules make the state regulators' jobs "more difficult," says Gary Baker, president of Baker Investment Group, in Ann Arbor, Mich.

Beneath the awning of Regulation SB lies a small sheaf of new paperwork. Two new registration forms, SB-1 and SB-2, replace the now-obsolete Form S-18, which was the previous "simplified" version of the draconian Form S-1, the comprehensive registration document required of most larger domestic stock issuers.

Form SB-1 is a "transitional" registration statement adopted for use by the SEC in April. This form abridges the public-offering disclosure document for companies registering and issuing less than $10 million of securities over 12 months. Beyond that threshold, smaller companies issuing stock would likely use the Form SB-2 to register initial or subsequent offerings. (See chart on Page 33.)

Annual and quarterly reports are also now tailored to small stock issuers. Regulation SB integrates annual reports using a Form 10-KSB, replacing Form 10-K; and Form 10-QSB somewhat eases the task of filing 10-Q quarterly statements.

Pierre de Champfleury says the new public-offering process is at least easier to the extent that he registered Erox with the SEC without employing an underwriter—just he and his attorney completed the offering and—*voila!*—his firm is now traded on the NASDAQ small-capital exchange. NB

Are You Eligible?

Your company may take advantage of Regulation SB if you meet all of the following criteria:

- You are a U.S. or Canadian company.
- Your revenues are less than $25 million.
- Your outstanding securities are less than $25 million.
- You are not an investment company.
- If you are a majority-owned subsidiary, your parent firm also meets the above criteria.

Forms and instructions for putting Regulation SB to work are available from the Securities and Exchange Commission's publications office at (202) 272-7460 or (202) 272-7461.

TRANSPORTATION

Ways To Outsmart Vehicle Thieves

Sophisticated devices—and common sense—are the major weapons for keeping thieves from stealing company cars and trucks.

By Julie Candler

Six weeks after it began operating the state lottery in Texas last year, GTECH Corp., based in Austin, lost four Pontiac TranSport minivans to thieves in Houston. Two were stripped of removable seats, radios, and other valuable parts. "Replacing a set of those seats alone costs $4,000," says Everett Armstrong, fleet administrator for the firm, which operates lotteries in 25 states and 18 foreign countries.

In Anthony, Texas, a driver for Pet, Inc., based in St. Louis, parked his big rig inside a fenced-in company lot. A prisoner from the adjoining minimum-security prison jumped the fence, found the vehicle with the key in it, and—to avoid damaging the front of the tractor—backed it through a locked gate and sped away. He was apprehended in California.

Another driver for Pet stopped for coffee, left the truck's engine running, and locked the door. A thief with locksmith skills quickly broke into the vehicle and drove off. The tractor-trailer was found 400 miles away.

Nationwide, one of every 42 registered motor vehicles was stolen or stripped of contents or accessories in 1991, the latest year for which the FBI's Uniform Crime Reports are available. Vehicle thefts have been rising since 1984 and were up 1.6 percent in 1991 over 1990. Nearly 80 percent of stolen vehicles were cars, 15 percent were trucks or buses, and the remaining 5 percent consisted of trailers, motorcycles, and other vehicles.

All the motor vehicles stolen in 1991 were worth nearly $8.3 million, according to the National Insurance Crime Bureau, in Palos Hills, Ill.

The theft of a commercial vehicle can cost its owner thousands of dollars because insurance companies typically pay only the vehicle's cash value, not the full cost of replacing it. As more business owners realize how costly—not to mention inconvenient—such thefts can be, they or their fleet managers are finding ways to reduce the losses by training drivers to take common-sense precautions and by using increasingly sophisticated anti-theft technology.

GTECH Corp., for example, has adopted both strategies—driver precautions and anti-theft devices. First, the firm is placing as few of its minivans as possible in the area of Houston where the four thefts occurred. Second, it has equipped all 340 of its minivans with The Blocker, an electronic device wired into the ignition. Without the proper ignition key, "there is no way that car will start," Armstrong says.

PHOTO: [illegible]—BLACK STAR

A stand-out paint job *can make a truck less concealable after it has been stolen, says Tony Jolly, fleet manager of Pet, Inc., in St. Louis.*

Since the devices were installed, there have been 10 attempts to steal GTECH's minivans, says Armstrong. "We have had some vehicles with broken windows and torn-up steering columns, but thieves haven't gotten away with a single van."

The Blocker was installed for GTECH by PRJ Corp. of Sugiarland, Texas. PRJ's sales manager, Jack Kennedy, says the firm charges $85 to $125 per vehicle, depending on fleet size and installation arrangements.

What helped the quick return of the Pet, Inc., trucks, says the company's fleet manager, Tony Jolly, is that each was painted a brilliant yellow and emblazoned with the name "Old El Paso Mexican Food," one of Pet's product lines. "You can steal it, but you can't hide it, or you'd better paint it," says Jolly.

Both trucks were recovered undamaged, and there have been no thefts of Pet vehicles in the years since. Now, says Jolly, a driver who leaves a truck—whether for a few minutes or overnight—must turn off the engine and take the keys. In addition, he says, "we are looking at systems now that will turn the truck off automatically." Jolly says he also is considering satellite communications systems, which would enable dispatchers to send information instantly to the firm's 42 WHITEGMC power units and to track each vehicle's precise location.

Protecting Trucks And Cargo

Trucks account for business's most serious vehicle-theft problems, says Robert R. Landis, executive vice president of Gary Markel Safety Services, Inc., a St. Petersburg, Fla., firm whose services include surveillance and recovery of stolen property. "A truck is valued at so much more than an automobile that it's more of a temptation to steal," he says. For example, the transmission from a $90,000 truck is worth more than one from a $60,000 Mercedes, and a working truck transmission that costs $20,000 from the manufacturer might sell for $6,000 in the stolen-parts market.

Consequently, more precautions are being taken with trucks, especially with those carrying high-value merchandise, says Lester Sokolowski of the National Safety Council, in Chicago. Companies are being more careful with routing to avoid high-crime areas, he says, they are scheduling times of delivery in certain areas to minimize the risks of theft, and they are hiring guards to protect loaded trailers.

"We think one of the keys to truck theft

prevention is hiring good drivers," says Jake Wood, president of Werner Enterprises, in Omaha, Neb. The company is a common and contract carrier with 3,100 heavy-duty trucks. "The better the drivers, the better care and consideration they will give your equipment. They won't leave it in a dangerous place or collaborate with someone who intends to cheat or steal."

Last November, Werner Enterprises equipped its trucks with the OmniTRACS two-way, satellite-based, communications system from QUALCOMM, in San Diego. The system costs $3,800 to $4,200 per truck plus the price of an office computer and software, which can run from $3,000 for a PC to $35,000 for a mainframe. "If somebody wants to steal a truck, it won't stop them," says Wood. "But this will help us once a truck is stolen" by enabling the company, through the system's tracking technology, to determine the truck's exact location.

The Automotive Electronics Division of Rockwell International, headquartered in Troy, Mich., recently unveiled its Pro Series Mobile Communication system, which uses American Mobile Satellite Corp. for its satellite service. Rockwell's system equips each truck with a transceiver, antenna, and driver keyboard. Each dispatch location receives special software. The list price is $4,200 per vehicle for the mobile radio equipment. Rockwell says the average cost for a typical truck fleet for message service and capability for tracking missing vehicles will be $50 to $75 a month for each vehicle.

A system from Motorola, Inc., in Schaumburg, Ill., is said to be able to pinpoint a vehicle's location to within 300 feet. Motorola's CoveragePLUS two-way voice, fax, data, and vehicle-tracking system includes the company's new GPS Location Receiver. Its technology is similar to that of a Loran navigational system, which uses radio signals to track planes and ships. The Motorola system, depending on its complexity, costs $1,500 to $4,500 per truck.

Preventing Car Theft

Though the theft of a truck generally involves a bigger dollar loss, the theft of a company car or its contents can be no less aggravating, and efforts to prevent car theft are no less intensive. Moreover, electronic anti-theft systems can reduce the comprehensive-coverage portion of auto-insurance premiums by 5 to 15 percent, says Steven Goldstein, vice president for communications of the Insurance Information Institute, in New York City.

Gordon West, corporate manager of the 3,200-vehicle fleet at Pfizer, Inc., a New York company that manufactures and sells pharmaceuticals, says, "We provide aftermarket-installed ignition disablers and hood bolts for cars that operate in high-crime areas." The ignition disabler, he explains, "has a little red light on a device bolted to the instrument panel. When most thieves see it, they know they can't steal the car without a key activator to release this device."

Theft-prevention devices being used by owners of commercial cars (and trucks) also include bar-type steering-wheel locks

Anti-theft tools: *The Big Stick steering-wheel lock from Anes Security, and the Pro 1000 SX keyless-entry and security system from Code Alarm.*

designed to prevent turning. The driver locks the device across the steering wheel before leaving the vehicle unattended.

Among the best-selling steering-wheel locks is The Club, priced at $59.95 and produced by Winner International, in Sharon, Pa. Similar locks, called The Big Stick and The Claw, are produced by Anes Security, in Irvine, Calif.

More than two dozen manufacturers offer electronically operated anti-theft devices. Among them are remote-controlled key-ring transmitters. Some lock and unlock doors while at the same time they disarm or set in motion other anti-theft systems. Some start or shut off an engine and accessories such as the radio and heater from a range of 300 feet. Other types of devices include sensors that detect the breaking of glass or entry into a car and set off sirens, horns, or flashing lights. (See also Free-Spirited Enterprise, on Page 80.)

Code Alarm Security Systems of Madison Heights, Mich., produces a range of keyless-entry systems combined with alarms, flashing lights, and/or starter disablers. The systems are available on vehicles from Chrysler, Ford, General Motors, and Mitsubishi.

Directed Electronics, of Vista, Calif., offers a Back Talk system, which lets owners record messages such as: "Stop tampering immediately. Alarm will sound in two seconds!"

Some theft deterrents are tied into cellular phones. When their sensors determine the vehicle is being stolen, the phone automatically dials the owner, who then can send a stop command to the phone's keypad. The engine is automatically shut off when the car has slowed enough so that it can be stopped safely without power assists, and it cannot be restarted by the unauthorized driver.

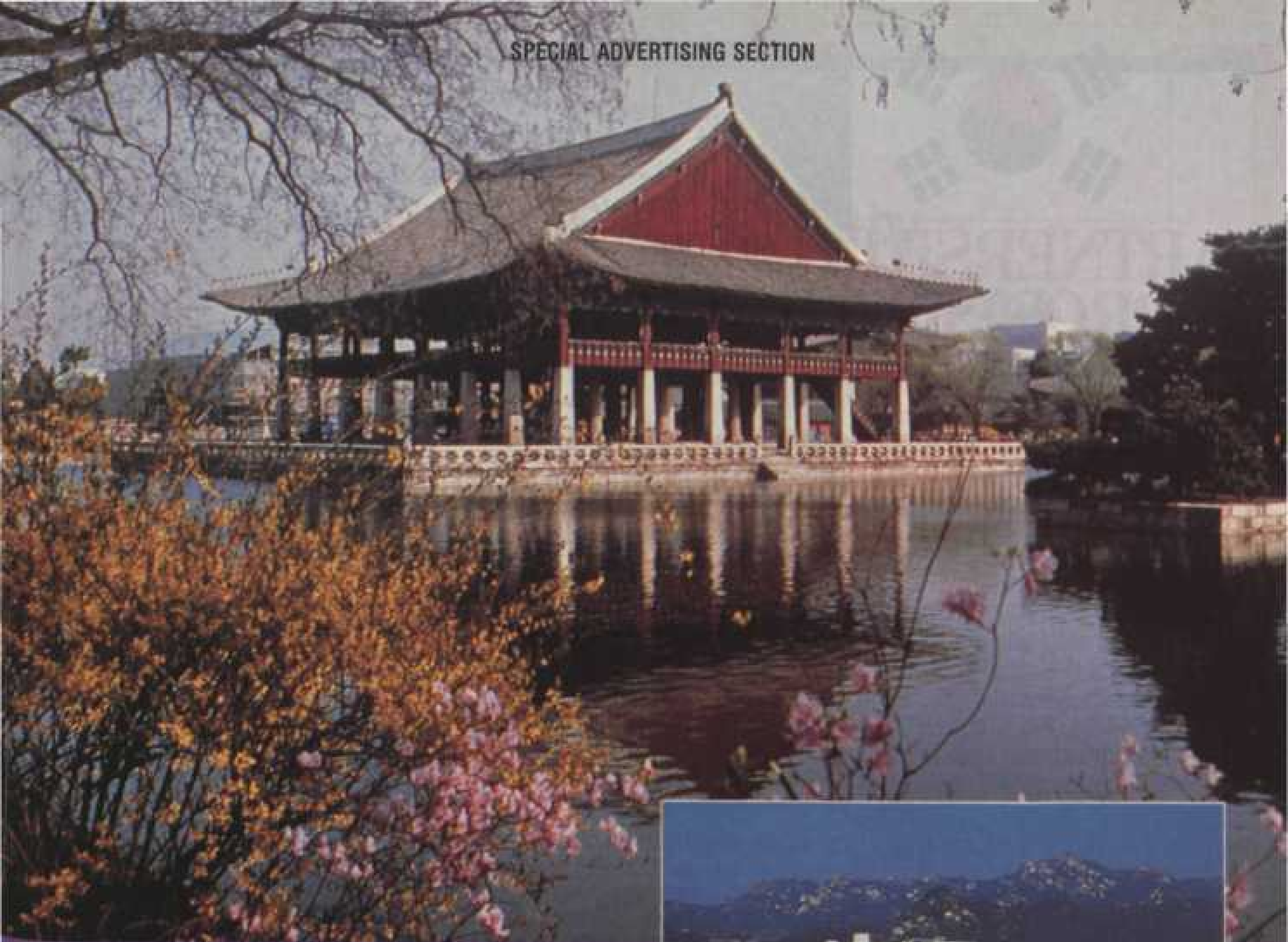
A system from PacTel Teletrac, of Inglewood, Calif., features a hidden or remote alert button that is installed in a vehicle. When pressed by an occupant, it instantly alerts dispatchers to an emergency. A hidden transceiver sends a signal back to a computer screen at fleet headquarters, where the vehicle's location is shown on a digitized city map. The unit costs $599 plus $15 a month for monitoring and about $8,500 for a headquarters computer and software.

Several firms make anti-carjacking devices that can be triggered by a victim when a carjacker takes over a vehicle. They typically turn off the engine and set off alarms and flashing lights.

Inspector David Simmons of the Detroit Police Crime Prevention Section says that a carjacking is most often just a means of escape for someone whose primary intention was to rob the driver. A carjacking victim usually is a driver who is alone in a vehicle that is stopped with the engine running—perhaps in traffic or at a fast-food drive-up window, an automatic-teller machine, or a drive-up telephone. "Try to avoid these situations in the wee hours," he says.

Electronic technology appears to be putting vehicle thieves at an increasing disadvantage—at least when they target cars and trucks equipped with such devices.

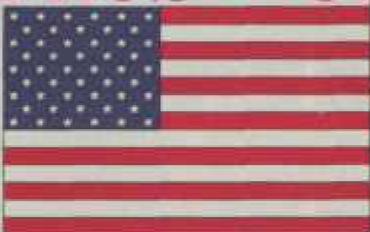
Of course, many experts say that the most important anti-theft strategy for commercial vehicles depends not as much on the technology as on the driver's practices. A driver who leaves a vehicle should always lock it and take the keys, they emphasize, and no vehicle should ever be left unattended while the engine is running. NB



KOREA AND THE UNITED STATES: PARTNERSHIP & PROSPECTS

SPECIAL ADVERTISING SECTION

PARTNERSHIP & PROSPECTS



PHOTOS: COURTESY OF KOREA NATIONAL TOURISM CORPORATION

The U.S. and Korea have had a fruitful relationship based on mutual interests since 1948. While those interests have shifted over the years, the relationship remains critical and well worth maintaining for both countries.

This is a memorable political year for the United States and Korea, with new administrations taking office in Washington and Seoul within one month of each other. And this historical coincidence underscores the strong and enduring partnership that has existed between the two countries since the birth of the Republic of Korea in 1948.

In the early years, that partnership was based largely on shared military and strategic interests. But as Korea began its transformation into one of the world's most successful newly industrializing countries, the focus of the relationship gradually shifted toward economic cooperation.

Today, Korea ranks seventh among U.S. trading partners, and economic issues have come to the forefront of bilateral relations. As points of contact between the two economies have multiplied, frictions have inevitably arisen. However, both sides have recognized that too much is at stake to let minor irritants develop into major confrontations.

Moreover, the restoration of balanced trade between the two countries in recent years has contributed to a generally favorable climate of economic cooperation.

The Korean Economy Today

In less than a single generation, Korea has emerged from chronic poverty and underdevelopment, aggravated by the devastation of the Korean War, to become one of the world's most successful developing countries.

This achievement was largely a result of the export-led industrialized strategy adopted by the government in the early 1960s. Such a strategy enabled Korea to make the best use of its well-educated labor force and highly motivated entrepreneurs. In addition, Korea was able to take advantage of open markets in the industrialized countries during the 1960s and early 1970s.

Since 1970, Korea's GNP has grown 35-fold in nominal terms, and per-capita GNP has increased 26-fold in nominal terms. Korea's GNP and per-capita GNP rank about 15th and 30th, respectively, among all countries. In 1992, the nation's trade volume totaled $158.4 billion, making Korea's total trade the 13th-largest among all nations.

Since the mid-1980s, the Korean economy has been facing serious structural difficulties arising from high wage settlements, a slowdown in productivity growth, and insufficient investment in research and development.

To make matters worse, the explosive growth of the construction and service sectors has drawn capital and skilled manpower away from manufacturing, further weakening the nation's export base.

As a result, Korean export goods have been losing their competitive edge as less-developed countries have begun to overtake Korea in labor-intensive product lines.

Korean landmarks include the pavilion, on the cover of this section, in Kyongbokkung Palace in the otherwise bustling city of Seoul. Above is the Pulguksa Temple in the Kyongju district.

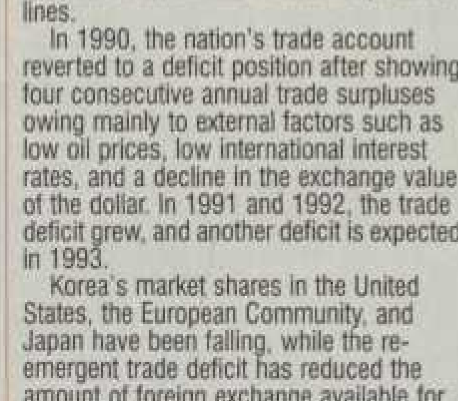
In 1990, the nation's trade account reverted to a deficit position after showing four consecutive annual trade surpluses owing mainly to external factors such as low oil prices, low international interest rates, and a decline in the exchange value of the dollar. In 1991 and 1992, the trade deficit grew, and another deficit is expected in 1993.

Korea's market shares in the United States, the European Community, and Japan have been falling, while the re-emergent trade deficit has reduced the amount of foreign exchange available for external debt servicing.

Korea's Position In The Global Economy

Since the adoption of the export-led development strategy in the early 1960s, the Korean economy has become increasingly integrated into the global economy.

In the early days of national economic



From CHIPS

Hyundai is continuously committing itself to some of the world's most advanced technologies and innovations to help you grow your business and to help build a better future for everyone.

One of our latest achievements was the introduction of the **64M DRAM chips** in 1992 less than 4 years after the development of the 1M DRAM. Hyundai is the new force in electronics and telecommunications around the world.

Having earned global fame for the Excel, Sonata and Elantra in the world's auto markets since 1986, Hyundai has developed the **HCD-2 sports car**, taking automotive aerodynamics into a new age.

Our expertise in large scale engineering and construction projects worldwide, including **turn-key base plant projects**, has

The Chang-go drum dance, above, began as a fast and lively section of a farmers' dance. Its name comes from the type of drum used in the music. The Chang-go drum is shaped like an hourglass and is used in almost every kind of Korean music. There are many kinds of drum dances and numerous types of drums used in Korea. At left is a traditional Korean bride.

development, trade policy necessarily emphasized export promotion, while imports were restricted mainly to raw materials and capital goods needed by industry.

Even so, Korea began a modest import-liberalization program, including tariff concessions, following its accession to the General Agreement on Tariffs and Trade (GATT) in 1967.

In the 1980s, the government accelerated the market-opening drive for several reasons. Above all, it was felt that Korean companies would be better able to compete abroad if they were faced with stiffer competition in their home market.

Second, the government came under growing pressure to accommodate middle-class demands for greater access to imported goods. And third, import liberalization was pursued to improve trade relations with Korea's principal trading partners, whose own trade policies were becoming increasingly protectionist.

As an active member of the world trading community, Korea takes part in major multilateral trade negotiations, such as the Uruguay Round under GATT. The Korean government has endeavored to influence other developing countries through the example of its own successful liberalization program.

Even so, Korea's global trade account has shown chronic deficits, except for the period 1986-1989. In 1992, Korea's trade deficit totaled $5.14 billion.

In the same year, Korea saw an actual decline in its exports to the U.S.—the only country to do so among America's leading trading partners, including Japan, the E.C., China, Taiwan, and Mexico.

Korea's Market Liberalization

Until the mid-1980s, the Korean government took a restricted approach toward market liberalization—an approach that reflected chronic trade deficits and weak industrial infrastructure. But Korea's rapidly increasing economic growth resulted in growing pressure from other nations on Korea to open its domestic market.

As Korea recorded consecutive annual trade surpluses during 1986-1989, the Korean government affirmed its commitment to liberalize the nation's market and implemented market-opening measures despite strong domestic opposition, thus increasing its contribution to global trade liberalization.

Unlike the early stages of economic development, when the purpose of Korea's tariff policy was to protect specific industries, government tariff policy now emphasizes efficient resource distribution and balanced industrial development.

Consistent with that emphasis, the government is exerting its best efforts to reduce basic tariffs and to reduce the differences in tariff levels between items.

To that end, Korea has implemented two five-year tariff-reduction plans since 1984. As a result, the average tariff rate was reduced from 23.7 percent in 1983 to 11.4 percent in 1990.

The second five-year tariff-reduction plan was postponed one year (originally it was scheduled to run from 1989 to 1993). When the plan is completed in 1994, the average tariff rate will have been reduced to 7.9 percent.

Even though implementation of the plan has been delayed, the actual tax burden on imported goods has been reduced because the Korean government completely eliminated the defense tax of 2.5 percent, which had been additionally levied on imports.

Trade And Industrial Cooperation

In the course of Korea's economic development, the United States has greatly contributed to that process by providing markets, technology, and capital. The U.S. has been Korea's leading economic partner since the founding of the Republic in 1948, and in recent years, Korea has become an increasingly important market for U.S. goods and services. The United States has been Korea's largest partner for several decades. The U.S. takes in the largest share of Korea's exports—23.6 percent in 1992—and ranks second as a source of Korean imports.

Korea has emerged as one of America's largest trading partners, ranking eighth in 1992—eighth among U.S. import sources, and seventh among U.S. export markets.

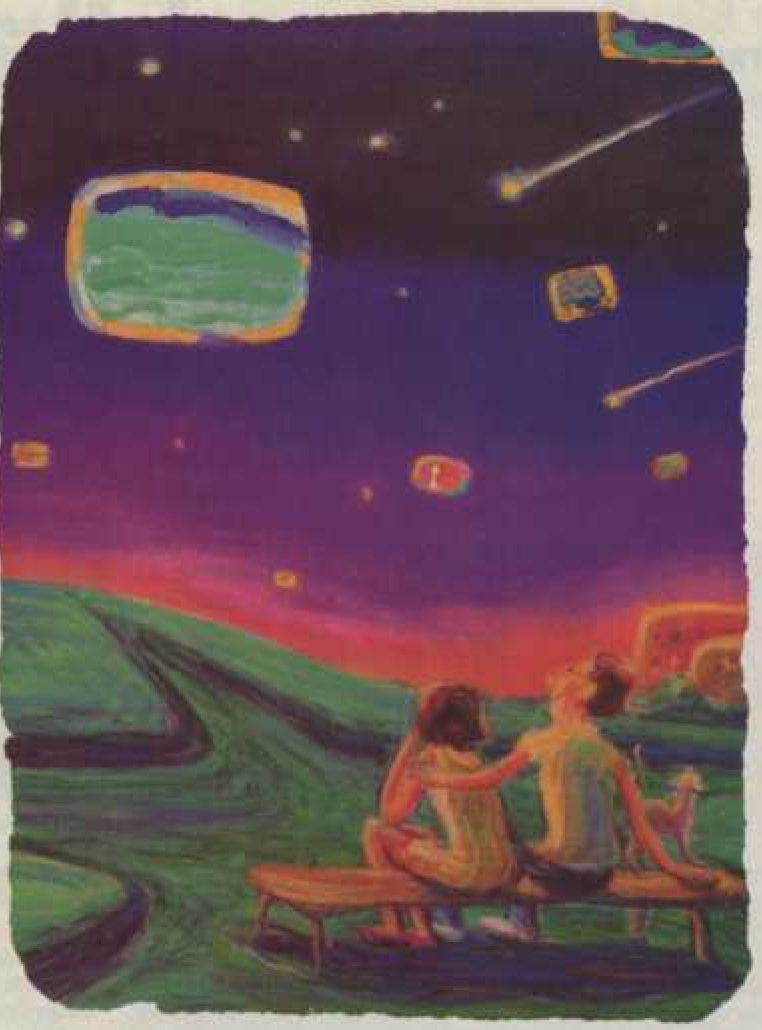
Before the 1980s, the U.S. exported far more to Korea than it imported. However, this unbalanced trade relationship gradually moved toward equilibrium as a result of the growth of the Korean economy.

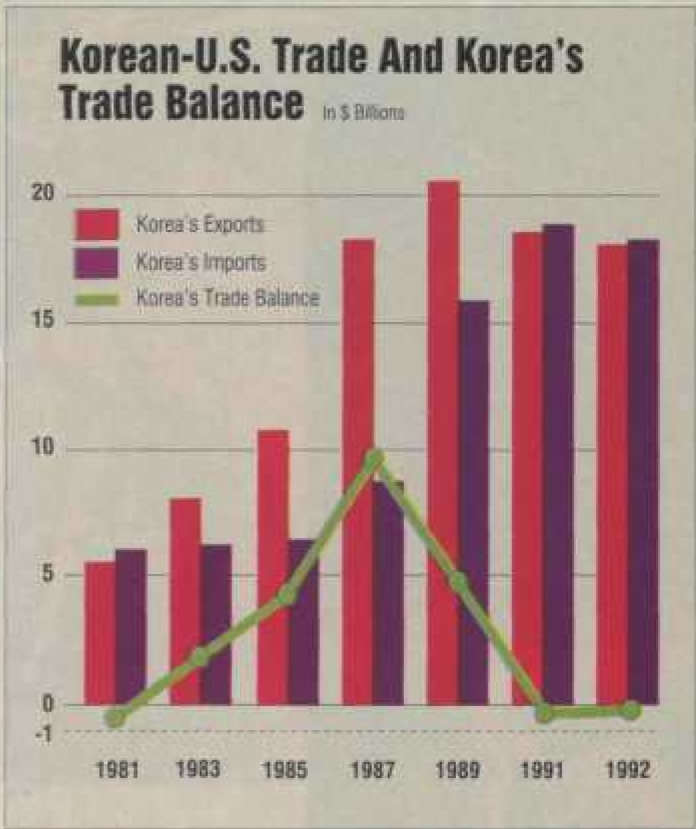
A trade surplus with the U.S. emerged in 1982, increased for five consecutive years, and eventually peaked at $9.6 billion in 1987.

The most recent Korean statistics, however, indicate that the balance in U.S.-Korean trade has been restored as Korea has progressively opened its market.

A New Era Of Cooperation

Trade relations between Korea and the U.S.





have changed in accordance with changes in U.S. foreign-trade policy and the balance-of-payments trend between the two countries. In the 1990s, U.S.-Korean economic relations have been increasingly directed toward exploring new opportunities for cooperation, particularly technological and industrial cooperation. This is in contrast to the 1980s, when the focus was on Korean market-opening and bilateral negotiations to resolve trade disputes.

In 1990, the U.S. and Korean governments resolved most of their pending issues, thus removing the threat of punitive action against Korea on the basis of the "Super 301" provision of the Omnibus Trade and Competitiveness Act. As the bilateral trade balance has moved toward equilibrium in recent years, in part because of Korea's accelerated market-opening schedule, trade frictions between the two countries have abated considerably.

Since then, both the U.S. and Korea have agreed that the emphasis in their economic relations should be redirected from merely resolving trade disputes, as in the past, to exploring new opportunities for technological and industrial cooperation. With that end in view, the U.S. and Korean presidents agreed at their summit meeting in Seoul in January 1992 to create a new cooperative framework called the "Presidents' Economic Initiative" (PEI).

Within this framework, the two governments have established working groups to improve business conditions in both countries. At subsequent PEI consultations, the two sides have proposed joint recommendations for improvements in customs, standards, investment, and technology.

The central objective of the PEI is to facilitate increased investment between the two countries in areas where U.S. and Korean industry can most effectively combine their respective strengths, as in Korea's manufacturing base and U.S. advanced technology.

In their first year of operation, the four PEI working groups (Technology, Customs Clearance, Standards, and Investment) have submitted a wide array of recommendations, most of which have been accepted and are being implemented by the U.S. and Korean governments.

Emerging Pattern Of Relations

Recently, both Korea and the U.S. have had considerable difficulties in their domestic economies as a result of weakening industrial competitiveness in certain sectors.

Closer industrial cooperation between U.S. and Korean companies can help both nations reverse the decline in competitiveness by taking better advantage of the complementary industrial structures of each partner. Such cooperation could be of particular benefit in reducing production costs, improving product quality, and cutting the development time for new products. It would also help to ease trade frictions, which have already diminished considerably in recent years.

Eventually, U.S. and Korean cooperative ventures could become formidable competitors in third-country markets. Especially promising fields include aerospace, biotechnology, and semiconductors. Successful efforts in these areas would be facilitated by increased technology transfer, joint development of technology, and joint commercialization of government-held technology.

A Strong Alliance

The Republic of Korea is seeking a strong industrial alliance with the United States, and this goal is receiving favorable reaction among U.S. and Korean businesses, said Chulsu Kim, minister of trade, industry, and energy, who addressed U.S. business people at the U.S. Chamber of Commerce in April. Asia is likely to have a greater economic impact on America's economic future than any other region of the world, he said, and he suggested that the U.S. should look to Korea as a key link to tapping the area's economic potential.

Chulsu Kim

Employees at a Lucky-Goldstar office.

Korean Know-How

One of the Korean companies that has a great interest in dealing with the U.S. is Lucky-Goldstar.

The company's roots go back to 1947, when In-Hwoi Koo established the Lucky Chemical Co., the forerunner of present-day Lucky Ltd. The new company produced only one product, women's facial cream, but other daily necessities and personal-hygiene products quickly followed, and the Lucky-Goldstar Group was formed.

In 1958, the Goldstar Co., Ltd., was founded and began to manufacture electric and electronic products, including Korea's first transistor radio. With this and the establishment of the Honam Oil Refinery in 1967, the final cornerstones of the group's main business fields of chemistry, energy, and electric and electronic products were laid. Today, Lucky-Goldstar is made up of 34 companies operating in more than 120 countries, with 1992 sales eclipsing $32 billion.

With the group's expansion into overseas markets has come a strong dedication to becoming a responsible corporate citizen wherever it does business. In all aspects of its operations, the company strives to uphold its international commitment to excellence. In striving to achieve that goal, Lucky-Goldstar has committed itself to two key concepts: creating value for its customers and management based on respect for individuals—whether they are customers or employees.

TAXATION

Business Helps Sink BTU Tax

The U.S. Chamber and other business groups said the Clinton BTU tax would have adversely affected the economy.

By Mary McElveen

Broad business opposition to the original energy tax proposed by President Clinton appears to have paid off.

On June 8, the president agreed to consider alternatives to the tax based on the heat content of fuels, which he had included in his original economic plan. In addition, he indicated his willingness to accept greater spending cuts, which business had also urged, to offset at least part of his original energy proposal.

Business leaders praised the president's decision on the BTU (British thermal unit) tax, though they expressed concern about possible tax hikes that might replace the levy.

In a rare joint press conference May 25, the presidents of the U.S. Chamber of Commerce, the National Association of Manufacturers, and the National Federation of Independent Business had urged the elimination of the tax from legislation pending in Congress. They said the tax would have a broad negative effect on the economy, and they strongly recommended that Congress place more emphasis on spending reductions.

According to Chamber President Richard L. Lesher, the tax would stifle incentives to save and invest, further retard economic growth, and have an inflationary impact throughout the economy.

The BTU tax included in the plan adopted 219-213 on May 27 by the House of Representatives would have raised about $71.5 billion over five years and cost each household an estimated $400 to $500 a year. It would have been based on the heat content of fuels as measured in BTUs and would have been imposed on coal, crude oil, natural gas, hydropower, and nuclear power. It would have affected imports as well as domestically produced energy.

Business leaders had warned that as the higher cost was passed along, it would hit businesses along the line, resulting in a heavy impact on the economy generally.

The House and Senate bills including proposed tax increases—known as budget-reconciliation legislation—are required to implement the five-year deficit-reduction outline proposed by Clinton and approved by Congress in general terms earlier this year.

In their earlier action, lawmakers approved goals for spending and revenue. In their recent actions, they have been dealing with specifics for achieving those targets.

Jerry Jasinowski, president of the National Association of Manufacturers and chairman of the American Energy Alliance—the broad-based business coalition that fought the tax and sponsored the May 25 press conference—called the BTU tax "the worst possible tax we could use to reduce the budget deficit. Not only would this tax mean the loss of between 400,000 and 600,000 jobs and cost the average family over $400 a year, it would also hurt American exports," he said.

Jack Faris, president of the National Federation of Independent Business, said the hidden nature of the tax would allow it to become embedded in the federal budget and to be easily raised over time.

Lesher explained the ripple effect of an energy tax this way: "Higher energy costs increase pressure on other prices, raising the energy-cost component of other goods and services. Consumer purchasing power for other goods and services falls as a result of the reduction in disposable income caused by higher energy prices." Then "the lower personal incomes and reduced consumption lead to lower gross domestic product, reduced business fixed investment, and lower employment."

DRI/McGraw-Hill, a research and consulting firm in Lexington, Mass., estimates that the proposed BTU tax would have added 0.1 percent to 0.2 percent to the annual inflation rate and would have reduced real growth in gross domestic product 0.1 percent annually through 1998.

Addressing the press conference *of the American Energy Alliance is U.S. Chamber President Richard L. Lesher. Seated are the alliance's chairman, Jerry Jasinowski, left, president of the National Association of Manufacturers, and Jack Faris, president of the National Federation of Independent Business.*

After the House approved Clinton's proposals with the BTU tax intact, and following heavy lobbying by the administration, business's fight moved to the Senate, where Sen. David L. Boren, D-Okla., a Finance Committee member, had gained attention by proposing a plan that excluded the energy tax.

The combination of Boren's proposal, the close House vote, and the increasingly widespread opposition to the tax within the business community appeared to have encouraged the president to consider alternatives to the BTU levy. Whether greater spending cuts would replace at least partially the BTU tax remained to be seen. NB

FINANCE

Don't Get Taken By Phony Bonds

Con artists peddling fake surety bonds often prey on small firms, especially those with government contracts.

By Michael E. Trunko

Surety bonds that guarantee funds to complete a job when a contractor defaults often aren't worth the paper they are written on. Contractors who buy bogus bonds, and those who accept them at face value, are being bilked out of millions of dollars each year, according to bond-industry estimates.

No one knows precisely how severe the problem is, since most fraud of this type goes undetected. But federal investigators calculate that surety-bond fraud has exceeded $800 million since the mid-1980s.

"We may just be seeing a little tip of the iceberg," says Dennis Wine, vice president of the Surety Association of America, based in Iselin, N.J. "Fraud is usually exposed only when the obligee [the issuer of the contract] is alert and catches the counterfeit bond at the time it is presented, or if the contractor defaults.

"In most cases, though, the contractor doesn't default. So the job is completed, the bills get paid, and everybody goes home without even realizing they've been defrauded [that the surety bond was worthless]—the perfect crime, if you want to call it that."

The fraud is often perpetrated against contractors who win bids to do construction work for local, state, and federal agencies, almost all of which routinely require bonds before work can begin.

Martin Huber of the National Association of Surety Bond Producers, based in Washington, D.C., says there are primarily two types of fraud. One involves a con artist who claims to represent a nonexistent surety company and sells the worthless "bond" to an unsuspecting contractor, who then assumes he or she is insured. The names chosen for these phony companies are usually very similar to well-recognized surety firms.

The other type of fraud involves an impostor who claims to represent a legitimate surety firm and issues unauthorized bonds in that company's name.

National Surety, a subsidiary of Fireman's Fund Insurance Co., has been the target of several such scams. One incident involved a group from Atlanta that went to Chicago, where National Surety is headquartered. "They began using our name and got a mail drop right around the corner from us," says Joseph Forman, vice president of corporate investigations for Fireman's Fund. "They even got a telephone number in our name and a fax machine, so people could call them to verify bonds. In just three weeks, these con artists had issued 50 bonds worth a total face coverage of $29 million."

PHOTO: EDWARD R. FRAZIER—FOLIO, INC.

Construction companies *often purchase surety bonds without checking to make certain that the issuer is legitimate.*

Fireman's Fund has been encountering this type of fraud for about two years and, with the help of law-enforcement officers, has shut down four illegal operations. In each case, the company filed and won civil lawsuits against the swindlers and also made criminal referrals to the appropriate authorities.

Before purchasing a bond, you should always verify its authenticity, says Forman. To guard against doing business with a nonexistent surety-bond company, "don't use the name and phone number appearing on the bond or accompanying documents," he advises. "Instead, you should refer to the list of surety companies that appears in the authenticity guide [officially called the *Ogligee's Guide*] published by the Surety Association of America."

The association distributes the guide free of charge.

The authenticity guide does not contain the name of every firm that can issue bonds, however. If a company is not listed, turn to one of several other sources, such as the Treasury Department's list of surety-bond companies (Department Circular 570); A.M. Best's list; your state insurance department; the National Association of Surety Bond Producers, in Washington, D.C.; or an insurance agent or broker who can check for you.

Remember also that just because a company's name appears on a list doesn't mean that you are doing business with that firm. Because con artists sometimes use the names of reputable companies, you must also verify the bond with the insurance company that presumably is issuing it.

Says Thomas Harrington, supervisory special agent at FBI headquarters, in Washington, D.C.: "People must remember that independent verification of each bond with each company is the only way to be certain that what they're buying is legitimate. By doing so, they can put a stop to surety-bond fraud." NB

Michael E. Trunko is a free-lance writer in Akron, Ohio.

Family Business

When the heir to the firm is a woman; how consultants can help; tactics for making an inheritance endure.

OBSERVATIONS

Daughters As Successors In "Male" Industries

PHOTO: T. MICHAEL KEZA

By Sharon Nelton

One of the stunning things about the list of 50 top American women business owners recently announced by the National Foundation for Women Business Owners and *Working Woman* magazine is that 17 of the women inherited their businesses. That's one-third of the companies.

Family businesses are not yet being passed on to women successors at that rate on a national scale. But what if they were?

For one thing, we'd see more women owning and running businesses in industries that have traditionally been male-dominated. Those 17 top women who inherited businesses include a fuel-oil distributor, several publishers, a tire distributor, a car-wax manufacturer, and even a meat packer. Topping this year's list is Pat Moran, president of JM Family Enterprises, a Deerfield Beach, Fla., automobile dealership with annual sales of $2.4 billion and 2,100 employees.

Perhaps family resistance to daughters becoming successors in businesses in male-dominated fields—or any field, for that matter—is at last beginning to crumble. A case in point is Julie Nimmons, who, along with three younger sisters, "grew up" in the Schutt Manufacturing Co., an industry leader in manufacturing athletic face guards and helmets. Her father and grandfather asked her to join the business in 1982, and four years later she bought the company from her father.

Did Bob Humphrey have any qualms about his daughter taking over such a male-oriented company? "Apparently not," says Nimmons, a former school music teacher. She points out that if he had had reservations, "he could have sold it to somebody else."

Schutt Manufacturing is now headed by Nimmons' husband, Ken Nimmons. Julie is president of the Schutt Sports Group, which is parent to Athletic Helmet Inc., a company that she, Ken, her father, and some associates acquired. Schutt Sports Group provides marketing, sales, and other services to Schutt Manufacturing and Athletic Helmet. The combined businesses employ 170 people and have annual sales of $20 million.

Researchers say that in families without sons, daughters have a better chance of making their mark on the family firm. But Nimmons also says, "My mother taught me a long time ago that a woman could do anything she wanted to if she did it well."

Nimmons says she is not a feminist, which she associates with being pushy and demanding special attention for being a woman. "What I found in the sporting-goods industry is that the men—and it's basically all men—didn't throw up barriers whatsoever," she says.

Like most successors, Nimmons was exposed to the family business at an early age. Back in the 1960s, she remembers, she watched televised football games and helped her father and grandfather identify players who were wearing the company's face guards.

When the first Super Bowl was played, she says, "I was the only girl in the sixth grade who knew who was playing—or cared."

If this business passes on to the family's fourth generation, chances are it will continue to be woman-owned. Ken and Julie Nimmons have two children, Jennifer, 13, and Stephanie, 11.

According to Julie, "Jennifer has already put me on notice that she *will* take over the company." ■

PLANNING

How To Choose A Consultant

By Craig E. Aronoff and John L. Ward

"What we need is a family-business doctor," one family member said at a recent family meeting. Her father interrupted: "We need 911! I don't know if I'll be able to play with all my grandkids if we don't solve some of our problems fast."

Until recently there were very few "family-business consultants." Now, hundreds claim that title. Most are individual practitioners who have firsthand experience with the needs of family businesses gained as family therapists, as industrial psychologists, or as general management consultants to smaller businesses.

Larger, professional services firms have also become aware of family-business needs. They recognize that many of their recommendations in areas such as estate planning, compensation, or strategic planning are tied inextricably to successfully addressing family concerns.

They also see the potential of developing long-term relationships with clients that are likely to remain independent businesses, resistant to being taken over by someone else.

Concurrently, family businesses are more eager for help than ever before. With increased discussions of family-business matters in publications and at trade-association meetings, family-business owners are more able to see their

PHOTO: T. MICHAEL KEZA

John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

problems as "normal" rather than unusual or unique. They are more likely to admit and address them. They see new hope for resolving painful problems that affect the most important things in their lives: their families and their businesses.

Nonetheless, family-business owners may need to temper their enthusiasm. They must be sure to define their expectations and desires. Too often the call for a consultant is seen as a panacea.

The first step is to define what role you want the family-business consultant to serve. There are several possibilities:

Be an issue expert. A consultant can offer expertise on particular questions such as proper compensation levels for family members, transferring stock to the next generation, or adding outsiders to the board of directors.

Help define priorities. Frequently, family-business experts can help the family identify its most critical and immediate issues. Consultants typically interview family members and others who make up the family-business system. Based on the information gathered, the consultant may recommend an agenda of next steps, such as providing financial security for the parental generation, helping potential successors develop leadership skills, or articulating the family's rules for stock ownership or entry into the business.

Lead the problem-solving process. Families in business often need help sorting out their issues, improving group communication, or resolving conflicts. Many family-business consultants are excellent at leading this process. "Process" questions can include, for example, selection of successors, improvement of family communication skills, or reconciliation of various shareholder differences.

Some business owners develop relationships with a family-business consultant just to have him or her "on call" in case of future need. Here we recommend caution. Rather than putting a consultant on hold, we suggest recognizing underlying problems and overcoming unwillingness to address them. Dealing with issues sooner rather than later assures the parent generation's ability to participate and provides time for the healing of wounds left by any conflict.

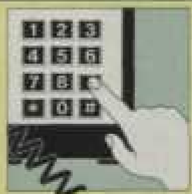
Effective use of a consultant requires developing appropriate expectations for the engagement. If the consultant is to provide an expert opinion, for example, then the family should accept responsibility for implementation, not lay that responsibility on the expert consultant.

If the family wants help in the implementation of a solution or in the development of interpersonal skills, then we recommend that the family be clear with itself that the consultant is a "facilitator." Even then, "answers" and responsibility for implementation rest with the family. The most common mistake we see occurs when the family tells the consultant "to solve the problem" or answer "what do we do next?" Instead, the family needs to say, "Can you help us decide how to proceed?"

The family also has to be clear as to whether it wants a political solution to a problem or a fundamental resolution for emotional concerns. A political approach would be, for example, developing a satisfactory way to buy out someone's stock, to define a job that meets someone's needs, or to strengthen the board of directors. Emotional resolutions can include family therapy or the pursuit of continuing family education.

When family-business issues have emotional roots, the most troublesome expectations relate to the extent to which "human nature" can change. True resolution of some issues requires not only proper definition of the problem and selection of an appropriate and qualified consultant but also a keen commitment to self-improvement and to finding and building on common ground.

Even then, patience and empathy are essential. The critical question is whether all family members will commit to the process and take responsibility for personal improvement. One family-business member told us: "As soon as I realized I was a part of the problem, and I could see this process as a personal growth opportunity for myself and us all, then we started to make real progress." ■



Looking For A Consultant

Here are some guidelines for selecting a family-business consultant:

■ Let several members of the family constitute a committee to define the role of a consultant and to identify candidates. This in itself is a valuable learning experience.

■ Have two or three consultant candidates present themselves at a family meeting. Then everyone learns.

■ Check references.

■ Be sure the consultant is very discreet in how he or she talks about other families.

■ Pick a consultant who is acceptable to everyone.

■ Hire a consultant who has enthusiasm and understanding for your business as well as comfort with your family.

MARK YOUR CALENDAR

July 18-23, Skytop, Pa.

"A Retreat for Families in Business" combines a family-business seminar with a family holiday in the Pocono Mountains. Sponsored by the Delaware Valley Family Business Center and Goshen College. Call Henry Landes at 1-800-296-3832.

Aug. 25, Goshen, Ind.

"Let's Talk Straight About Money!" features family-business experts Patricia Frishkoff of Oregon State University and Paul Frishkoff of the University of Oregon. For members of the Goshen College Family Business Program. To inquire about membership, call (219) 535-7451.

Aug. 29-Sept. 1, Yamhill, Ore.

"Family Business Family Camp" offers the entire family a chance to play as well as learn. Topics include career planning, succession, money, and values. Contact the Family Business Program, College of Business, Oregon State University, Corvallis, Ore. 97331; (503) 737-3326.

Oct. 10-15, Santa Barbara, Calif.

"Strategic Management" is a five-day program for owner-presidents and their top managers. Topics include strategy, marketing, financial management, and organization culture. Contact the Owner Managed Business Institute at (805) 564-8380.

Dec. 3-6, Miami-The Bahamas

"Successorship" is a cruise-ship seminar on evaluating and developing family-business successors. Contact Captain Cruise, Inc., in Schenectady, N.Y., at 1-800-347-3933.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

CASE STUDY

Who Would Make The Best Trustee?

George McNair, 70, and his wife, Marge, 65, have been working diligently on their estate plans. The founders of six auto-supply stores, they plan to set up an irrevocable trust with their sons, Nicky, 35, and Max, 32, as beneficiaries.

Since neither son was active in the business, George and Marge sold the company to a national chain. They intend to transfer cash from the sale to the trust, using their unified credit of $1.2 million. Some of the cash will be used to acquire survivor life insurance on George and Marge. Upon each one's death, the insurance proceeds will be used to pay estate taxes, with remaining assets to be distributed to the sons over time.

The senior McNairs want Jeff, an attorney and close friend of the family, to serve as trustee. However, they are concerned about two issues. First, they suspect that Max has become an alcoholic. "He lost his job six months ago and doesn't seem motivated to find another," says Marge.

ILLUSTRATION: DAVID CHEN

Second, they are concerned that Jeff may invest the trust assets too conservatively. After the irrevocable trust is established, they understand that they cannot make any changes. Therefore, they want to make certain that they select the proper trustee.

Although they trust Jeff, they know he will not live forever. "We really don't want an institutional trustee," says George. "There have been so many bank failures and mergers in our state, and we're afraid that an unknown trust officer will not have any relationship with or concern for our family."

George and Marge are worried about choosing a successor trustee and wonder if, in fact, they are putting too much faith in their close friend, Jeff. How should they proceed?

Allow For Contingencies

Good planning provides for contingencies such as an alcoholic son. However, professional guidance should be sought not only to help Max but also to help the family cope with the problem.

The concern over a trustee who is too conservative is a less frequent problem but nonetheless solvable.

Rather than setting up a single trust to be shared by their sons, George and Marge should create a trust with two distinct shares. Each son would start out with one-half of the initial gift. This way, if Max goes through his assets faster, he will not deplete the gift to Nicky.

PHOTO: ©JIM MENDENHALL

Harris L. Sherman of The Sherman Company for Family Business, in Costa Mesa, Calif., designs estate and succession strategies for family firms.

By naming each son as co-trustee with Jeff over each son's respective share, investment decisions would be made jointly. Decisions about distributions would rest with Jeff. Each trust would contain provisions allowing the trustee to defer direct distributions to a beneficiary who has a problem with alcohol abuse. It would also provide for deferring distributions in the event of other contingencies. For the future, allow each child and Jeff to jointly name successor trustees. Even though they may not regard it as the most favorable solution, George and Marge should consider naming a bank as successor along with the son if that son and Jeff cannot agree on a successor by the time Jeff dies or resigns.

The purpose of these strategies is to give George and Marge the opportunity to see their sons and Jeff work together during their lifetime. What better way to teach their children lessons of handling wealth and at the same time provide a test for not only their sons' capabilities but Jeff's as well? After all, the biggest part of the couple's estate won't become irrevocable until George and Marge are both deceased.

Focus On Root Causes

As George and Marge see it, the solution to their problem would seem to be a legal one involving the most appropriate selection of a trustee and how to best define the trustee's role and responsibilities.

Unfortunately, sometimes people consider only one approach to a family-business problem because of the way a question is asked or an issue is framed. Such narrowness of perspective may exclude other potential solutions or, in this case, prevent George and Marge from seeing the whole picture. Many times, several pieces to the puzzle must be seen, understood as a whole, and put together to achieve the best solution.

PHOTO: ©JOHN R. FULTON JR.

Sam H. Lane, a corporate psychologist experienced in family business, is president of LBF & Associates, Inc., a consulting firm in Fort Worth, Texas.

The McNairs' concern over the trustee appears to be masking a much deeper problem—for example, a lack of trust in their adult sons' abilities to be responsible enough, now or in the future, to manage their own money.

A lack of open communication and an unwillingness to confront potentially controversial topics may be hindering a constructive exploration of underlying issues.

George and Marge should consider a new perspective and focus on the root causes of their concern. It may be more productive to openly address Max's perceived problems than to "wire around" them.

Why is he doing what he is doing? Why did he lose his job, and why isn't he actively seeking another one?

Individual counseling might help him sort out and resolve his problems.

Getting all the family members to sit down together and candidly discuss what to do with the proceeds of the sale would be a good step in the right direction.

Multiple-Unit Franchising

To penetrate markets rapidly, many business owners choose some form of multiple-unit franchising.

By Meg Whittemore and Robert Perry

For 28 MotoPhoto franchisees in the Washington, D.C., area, Richard Schuman is the man to call if they have a problem. Schuman, as the franchisor's area representative, recruits and supports franchisees. "I consider them my people because I sold them on our concept, and I do whatever I can to help them succeed," he says.

Schuman is one of an increasing number of franchisees who own, manage, or support more than one franchise unit. Multiple-unit franchising (MUF) has attracted a larger following each year since Century 21 Real Estate Corp., an international real-estate franchise, pioneered the concept in the early 1970s.

Today, hundreds of franchise companies offer one or more kinds of MUF, in many types of businesses. (See the chart on Page 59.) Multiple-unit franchisees may be area representatives, like Schuman, but they can also be area developers or master franchisees, also known as subfranchisors. (See Page 56 for definitions of these terms.)

PHOTO: T. MICHAEL KEZA

MotoPhoto franchisees *in the Washington, D.C., area can get help from area representative Richard Schuman, right, shown with Michael J. D'Italia at a Rockville, Md., store.*

Franchisors view MUF as an efficient way to expand internationally or penetrate the domestic market more rapidly. They emphasize, though, that implementing an MUF program takes planning, as well as having qualified people as franchisees.

MUF is expanding quickly because:

- Thanks to corporate downsizing and "re-engineering," franchisors now have a larger pool of talented, management-oriented professionals from which to choose multiple-unit franchisees.
- Franchisors realize that if they want to expand internationally, they cannot service their overseas franchisees effectively at long distance; they need someone in each country who knows the territory.
- Franchisees like MUF because it gives them ways to grow within the company. Area developers—franchisees who own multiple units—can have more than one business to own and operate. Area representatives—who manage, support, and train the franchisees in their territory—resemble middle managers in a corporation; they can generate an income without having to flip the burger themselves. For master franchisees, the control and income stream can be even more attractive, since they are the local versions of the franchisor—they can sell franchises and sign contracts in the franchisor's name.

Robert Perry is a franchise writer in Annapolis, Md., and is author of The 50 Best Low-Investment, High-Profit Franchises *(Prentice Hall).*

MotoPhoto, a photo-finishing franchise based in Dayton, Ohio, has been selling exclusive territories to area representatives since 1982, the year after the company started franchising. The area reps recruit qualified franchisees within each territory to open MotoPhoto shops. Currently, MotoPhoto has nine area representatives, and they are responsible for supporting 329 franchises nationwide. Systemwide sales in 1992, including sales from 64 company-owned stores, were $101 million.

Area representatives do not sell franchises; they buy an exclusive territory and agree to recruit franchisees and support them on a day-to-day basis, on the franchisor's behalf. Although the franchisor maintains control over the actual sale of franchises, the area representative receives a percentage of the franchise fee and of the royalties that each franchisee in the rep's area pays the franchisor.

Michael Adler, MotoPhoto's president, says his company requires that its area reps hire experienced franchise consultants to support, train, and oversee the local franchisees; the area reps themselves handle strategic planning and selling.

Adler says area representatives give franchisees an "on-the-ground contact

Citizens Against Crime, *a safety-education franchise, is shifting to smaller territories.*

from the corporate office" when they run into problems. Harry Loyle, MotoPhoto's area rep for central and southern New Jersey, Delaware, and eastern Pennsylvania, agrees. "We are the individual's front line of defense," he says. "We do better than headquarters staff because we know the area and we have a direct interest in their success that a [corporate] staff member cannot have."

Both Schuman and Loyle note that area reps have a powerful incentive to support the franchisees in their territory: If their franchisees do not succeed, the royalty stream dwindles, and it becomes more difficult to sell franchises.

A potential hazard in MUF arrangements is that their regions prove too large for one person to oversee. Roy Cammarano, acting president of Citizens Against Crime, a safety-education franchise based in Allen, Texas, says the firm's initial growth strategy, 10 years ago, was to sell huge markets embracing millions of people, calling each a territory. Market research has since shown that no CAC territory should have more than 750,000 people. "Having one person han-

dling a market the size of Chicago is an inherently flawed design," he says.

CAC, whose systemwide sales total $10 million, has 25 franchisees, all of whom, as area developers, own territories. The process of shifting from CAC's original growth strategy of selling large territories to one of planned market penetration through smaller territories will take time, says Cammarano: "We are involving everyone in the company as we restructure CAC internally so we can grow most effectively through a redesigned approach to multi-unit ownership."

CAC offers educational seminars on personal safety and crime prevention to businesses and other organizations. In an effort to trim the size of its territories to a manageable level, CAC is offering a subfranchisor status to existing franchisees. "We want them to break up their territories into smaller territories," Cammarano says, "which would create royalty streams and passive income for them"—that is, they would get a portion of the royalties paid to the parent company by the new franchisees.

One franchisor that uses such subfranchising, or master franchising, both domestically and internationally is RE/MAX International, an international real-estate franchise based in Englewood, Colo. RE/MAX has 40 master franchisees in the U.S., Canada, Mexico, and the Caribbean. There are no corporate or individually owned franchises.

Robert Fisher, president of RE/MAX, says it was the company's decision 20 years ago to expand through master franchises because "the real-estate laws in each state and country are so different that we found it better to have someone with local knowledge and a local vested interest to deal with those differences."

RE/MAX currently has 2,013 offices, all of which are managed and supported through master franchisees. Another reason Fisher says his company chose to sell master-franchise agreements was the saving it offered in staffing requirements. "Today, with the number of offices we have in all the states and countries," Fisher says, "it would take at least twice the number of corporate staff people to do the job that's being done by the master franchisees."

PHOTO: ©TOM SOBOLIK—BLACK STAR

The Blimpie International *sandwich franchise sells area-representative rights, says Senior Vice President Charles G. Leaness.*

Kaaydah Schatten-Forrest, president of Dallas-based Ceiling Doctor, a franchise that specializes in ceiling and wall cleaning for commercial and industrial buildings, also used master-franchise agreements to expand her business internationally. She looks for a partner in each of the countries she enters. "That person buys a license to exclusively develop Ceiling Doctor in the country," she says. "The first year, we expect everyone to operate and own a Ceiling Doctor service business. The second year, we expect them to start marketing and selling franchises."

The growth plan is working. Schatten-

Defining Multiple-Unit Franchises

Following are descriptions of the three most common types of multiple-unit franchising arrangements:

Area Developers

These are franchisees who are given the right to open and operate outlets within a specific geographic area.

Area developers, who also are known as area franchisees, do not have the right to sell franchises or offer direct support to franchisees in their area. Instead, area developers are responsible for opening a certain number of locations in a given period.

An area-development agreement—also known as an area franchise or multi-unit development agreement—is used to structure this arrangement. The area developer usually pays a development fee to the franchisor. Each unit that opens is covered by a separate agreement with the franchisor.

Master Franchisees/Subfranchisors

Master franchisees, or subfranchisors, act as independent selling organizations that recruit and support franchisees within a specific geographic region, such as a state or a country. Subfranchisors have the right to sell franchises within their regions, sign contracts, and offer support to the franchisees. In return, the subfranchisor receives a share of the franchise fee and a portion of the ongoing royalty fee from each franchisee.

The subfranchisor signs an agreement similar to an area-development agreement with the parent company, setting out the detailed responsibilities of the subfranchisor for the solicitation and sale of franchises and operational support for franchisees.

Area Representatives

The franchisee signs a contract with the franchisor, but the support and day-to-day obligations of the franchisor to the franchisee are delegated to an area representative.

Area representatives solicit franchisees on behalf of the franchisor and provide the ongoing support promised in the franchise agreement. The area-representation agreement between the franchisor and the area representative is similar to an area-development agreement. The franchisor receives all franchise fees and ongoing royalties, giving the area representative an agreed-upon percentage.

Forrest reports $15 million in systemwide sales last year. Ceiling Doctor has 87 franchisees in eight countries and 45 franchisees in the U.S.

Schatten-Forrest offers this advice to franchisors thinking of growing their companies through master franchising: "Be sure to pick the right partner as your master franchisee. Don't just look for people who have the money. The individuals you bring into your business should share your values *and* be able to grow the system for you."

Atlanta-based Blimpie International, which sells submarine sandwiches and salads, uses area representatives as its primary growth vehicle. "Since we began to emphasize this concept in 1990, we have grown from 325 to 595 franchises, with 150 more in development," says Senior Vice President Charles Leaness. Currently, Blimpie has 81 area representatives and systemwide sales of $140 million.

The decision to focus on selling area-representative rights was made when "we found that our best restaurants were in markets with area representatives," says Leaness. "It was clear that the franchisees benefited from having hands-on help for real-estate operations [site selection, lease negotiations, construction, etc.] and continued training."

PHOTO: ©JOHN R. FULTON JR.

Ceiling Doctor's *Kaaydah Schatten-Forrest and Rob Forrest with Brian Singer and Michele Singer at work in a Dallas Burger King.*

One thing about growing a franchise through area reps, says Leaness: "It isn't cheap." Blimpie's vice president of franchising, Dennis Fuller, agrees. He says finding, training, and establishing an area rep costs "as much as if you serviced the individual franchisees yourself" from the corporate office, but the advantage is that an area-rep program "positions you favorably for long-term growth."

Some franchisors advise their peers to be sure that they're adopting an MUF strategy with such long-term goals in mind. Says Paul M. Wiljanen, vice president of marketing for Molly Maid, a residential-cleaning franchise based in Ann Arbor, Mich.: "In many cases, multi-unit franchising works well if you do it for the right reason—controlled growth in the right industry. But many more do it for the wrong reason—greed."

Does MUF encourage greed or growth? Franchisors who expand their systems with multiple-unit franchising need to temper their expectations for fast growth at low cost, say franchise experts. Only through commitment, high standards, and careful selection of capable, experienced master franchisees, area developers, or area representatives can franchisors—and their franchisees—enjoy the benefits of multiple-unit franchising. NB

To order reprints of this article, see Page 78.

What Franchisors Look For

By Paul DeCeglie

What characteristics do franchisors seek in potential multiple-unit franchisees? Crucial as the question may be to the growth and ultimate success of franchising, the franchise community has yet to formulate a definitive answer.

Franchisors agree that financial wherewithal is a prerequisite, but beyond that they sketch diverse portraits of the ideal multiple-unit franchisee. Most want candidates with backgrounds in business or management, some feel industry-specific experience is required, and others insist on individuals who will abide by corporate formulas.

"Potential [multiple-unit franchisees] must recognize the value of the system rather than invent a new one," says Dave Collins, vice president of franchising for the 875-unit Sir Speedy Printing, a quick-printing franchise based in Laguna Hills, Calif. Around 10 per cent of Sir Speedy's U.S. franchisees own more than one unit, although none qualifies as a true area developer, with exclusive rights to a large territory; the company does, however, have 12 area developers in as many foreign countries.

Collins, who reports 1992 systemwide revenues of $377 million, says the qualities that Sir Speedy seeks in multiple-unit franchisees "are essentially the same as those we look for in single-unit franchisees, only more. And definitely more money." He would not say how much.

Some insight on the money question comes from Joe Grimaud. "Just enough to do the job," says Grimaud, the president and CEO of Precision Tune, a tuneup and car-care franchise based in Leesburg, Va. That means, in Precision Tune's case, that an area developer who buys a territory large enough to accommodate 10 units should have at least $225,000 on hand.

Precision Tune rolled out its area-developer program in 1978 and now has 45 area developers, who account for more than 400 units in the system's 550-unit international network. Last year's systemwide sales totaled $165 million.

SpeeDee Oil Change & Tune-Up, a car-care franchise based in Metairie, La., has a short list of demands for its

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multiple-unit franchisees, who in its case are subfranchisors. "Financial wherewithal, general understanding of the *business* of business, and commitment to hire the right people to properly support franchisees in their territories," says Kevin Bennett, executive vice president of the 132-unit chain, which had 1992 sales of $54 million. He says the company's master-licensee program was begun six years ago "for quick growth."

Ed Mikkelsen, former offensive tackle with the New Orleans Saints, was SpeeDee's first franchisee. Mikkelsen started in New Orleans 10 years ago, he says, "with one unit and a great work ethic from my dad." Today, he has 10 stores in Louisiana, and last year he purchased the subfranchising rights for New England.

An important part of the success of multiple-unit operators "is the ability to work with people, particularly in the areas of providing direction and training," Mikkelsen says.

Red Rodenmeyer, owner of five Sir Speedy printing centers in Memphis, Tenn., attributes his success over the past four years to 18 years with companies in which growth dominated thinking at every level.

Multiple-Unit Franchising

Percentages Of Franchisors Using Multiple-Unit Agreements, By Type Of Business

Baking	62%
Restaurants	55
Fast Food	43
Beauty and Fitness	36
Children's Products and Services	36
Clothing	30
Party Goods and Services	33
Video	33
Retail Stores	29
Decorating	28
Pet Products and Services	22
Retail Food	21
Sports and Recreation	21
Printing	19
Health	15
Personnel Services	15
Automotive	14
Frozen Dessert	12
Business Services	6
Lodging	5
Maintenance	5
Real Estate	3

Multiple-unit franchises are those that involve subfranchise/master franchise agreements, area representative agreements, or area development agreements. These percentages are drawn from a survey of 705 franchise companies by FRANDATA, a franchise information and data-retrieval firm in Washington, D.C.

CHART: AMY PUGLISI

Rodenmeyer joined Sir Speedy with no printing experience. "But [knowing] the product line isn't significant," he says. One caution that Rodenmeyer directs to would-be multiple-unit franchisees is to be sure "you are willing to do what it takes in terms of time and investment."

T.J. Singer, an area developer for Checkers Drive-In Restaurants, agrees. Singer says he spent an "inordinate amount of effort" in building his franchise system in the Chicago area while scrambling for money to fund his multiple-unit growth commitment to the franchisor.

Checkers, a double-drive-through hamburger franchise based in Clearwater, Fla., awarded Singer the rights to the Chicago market in 1988 and, more recently, the rights to the St. Louis market. Now that he is beginning to develop his St. Louis market, Singer says, he's "more sophisticated," and "I recognize the need for adequate financing and for allowing the franchisor to maintain control. The key to successful franchising is a team of high-caliber developers who provide systemwide consistency of operations, product, and quality."

EDUCATION

Business Schools, TQM, And You

Some small-business owners are returning to class to learn how quality management can work for them.

By Michael Barrier

Small businesses and graduate business schools have never been a perfect fit. Business schools have turned out a lot more corporate executives than entrepreneurs.

Small-business owners do sometimes go to business school, either full time or in an executive-MBA program that combines work and study, and some entrepreneurs speak very positively about the experience.

There are plenty of other entrepreneurs, though, who spit out references to "the MBAs" with obvious disdain.

The reasons for their hostility are largely historical. As C. Warren Neel, dean of the College of Business Administration at the University of Tennessee at Knoxville, puts it, "business schools arose in the post-World War II period, searching for academic legitimacy as a newcomer on the American campus." When the schools developed a methodology for studying business, "the place to validate that methodology, in the form of a database, was primarily a large company."

Business schools used to think that small firms "did not have the level of sophistication to use much of the talent coming out of schools," Neel says. "This was arrogance." Today, he says, "we think we know that for the immediate future, the jobs are going to be created by the smaller firms—which is exactly opposite to where all of our research and focus have been for the last 35 years."

Despite the growing awareness of small business's importance, "entrepreneurship is still a red-headed stepchild in business schools," says Patricia D. Postma, director of Tennessee's executive-MBA program. "It doesn't have that long chain of theoretical literature that we think makes things legitimate."

But there are signs of a rapprochement. For one thing, several hundred business schools all over the country now offer courses in entrepreneurship, preparing students to run their own businesses or work at small firms. "More and more of our MBAs are tending to go into smaller businesses," says Jack R. Wentworth, who retires July 1 as dean of Indiana University's School of Business.

Just as significant, if not more so, many business schools have added courses in Total Quality Management, too, or have gone one step further and integrated TQM principles into their curricula.

"Under the old approach," says Dean J.D. Hammond of the Smeal College of Business Administration at Pennsylvania State University, "a student would get an injection of this and an injection of that"—courses in TQM might be set apart from courses of other kinds. Now, even though Penn State still has separate courses in functional areas at the MBA level, "the courses lead directly into one another," Hammond says, and quality-management concepts permeate them.

At Indiana, the School of Business has dropped courses altogether for the first year of the MBA program; instead, teams of professors teach "cohorts" of students. "We like to think we used the concepts of TQM to put that program together," Wentworth says. The teaching teams bring everything to a halt for one week in the middle of each semester, he says, "and that's quality week. That's when they try to tie things together and really demonstrate what quality is."

Tennessee, whose business school has one of the strongest programs in quality management, has made a "conscious decision over the last several years to engage with smaller organizations," says John E. Riblett, director of its Management Development Center. In 1981, the center offered its first three-week Institute for Productivity Through Quality; its executive-education programs now include 10 devoted to quality management.

In keeping with the new attention to smaller businesses, a faculty team from Tennessee has made three week-long visits this year to Lake Superior Paper Industries, a 360-employee paper mill in Duluth, Minn., to teach statistical techniques to a few dozen of the mill's key people. Vice President Dave Beal says that although he was familiar with those techniques (he took a course at Knoxville last year), he has learned that he can do far more with them than he realized.

It is through TQM that business schools may wind up forging their most solid links to small and midsize businesses. Academics and business people alike are starting to realize that much of what the business schools teach about TQM gives concrete form to what many small businesses already do.

"At smaller outfits," says Richard Sanders, a professor of statistics at Tennessee, "the managers do some things almost instinctively, and out of pure necessity, that larger organizations would really have to struggle to get done."

PHOTO: BILL D. LAWSON—BLACK STAR

Business executives learn *about quality concepts in short courses at the University of Tennessee.*

Sanders cites "what might be called cross-functional management, where you have managers in different functions, and some manager above them is having to struggle all the time to bring these guys together. In a smaller outfit, you have one guy doing three or four of those things"—cross-functional management exists in one person.

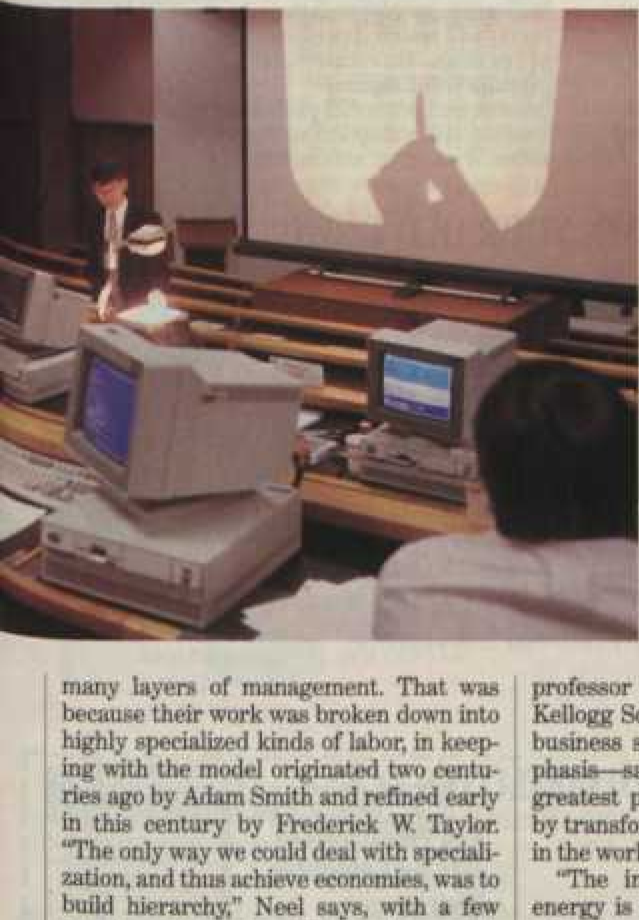
But as a company grows, he says, its owners and managers have "a responsibility to blueprint the process"—to transform into a formal system what has been done on an ad hoc basis.

Untended growth, John Riblett says, can lead to "stovepipe organizations"—that is, internal departments rigidly separated according to their function—"and

all of a sudden, you lose sight of the customer. Typically, what drives value to the customer cuts across the organization." A good business-school education should give the owners and managers of small firms the tools to keep those cross-functional lines open.

Of course, the business schools themselves have been much more used to training people to rise within "stovepipe organizations." "After all," says Warren Neel, "the rationale for the MBA program was to jump someone over a couple of layers in the organization." Two years on campus could translate into a saving of many more years than that in an individual's progress within a large company. But the same was not true in a small business; as Neel says, "there were no layers to jump over."

It used to be that large companies thought they had no choice but to have many layers of management. That was because their work was broken down into highly specialized kinds of labor, in keeping with the model originated two centuries ago by Adam Smith and refined early in this century by Frederick W. Taylor. "The only way we could deal with specialization, and thus achieve economies, was to build hierarchy," Neel says, with a few people at the top coordinating the specialized arms of the company.



The many layers of management gave large companies a way to "warehouse the budding generalist," Neel says; the prospective division manager or CEO could work his way up, layer by layer, until he was ready to assume broad responsibilities. MBA programs offered such managers and their employers a way to "compress the warehouse time," he says.

Large corporations and business schools thus enjoyed a symbiotic relationship—one that is changing in the wake of widespread corporate downsizing and "re-engineering." "The transition that's going on," Neel says, "is not just the removal of middle management, it's a complete reshaping of the leadership model. We're groping for a new paradigm"—one that may result in organizational structures for small and large companies that are much more alike.

"The term that's been used is the 'atomization of American business,'" Neel says. "One of the most compelling reasons for large firms was that you could achieve economies of scale, and obviously you needed capital, massed in one place, in order to achieve those economies. So we took the tools of labor away from the laborer, transformed them into fixed capital, and then hired the laborer.

"Now," he continues, "the workers are going to seize control of the workplace again and become even more important than they were 200 years ago. They will do that by being more responsible for the use of that capital, at the point of producing something of value. We're going back to the days when the craftsmen took the tools home with them in the evening"—only now those tools will be inside the worker's head.

Total Quality Management, in its various incarnations, is turning out to be the most effective way to deal with this new reality, because it emphasizes not hierarchy and control, but teamwork, employee empowerment, and a companywide recognition that serving the customer effectively is more important than anyone's ego.

Stuart I. Greenbaum, a professor at Northwestern University's Kellogg School of Management—another business school with a strong TQM emphasis—said in a speech last year: "The greatest productivity gains are obtained by transforming adversarial relationships in the workplace into cooperative ones. . . .

"The insight of TQM is that much energy is wastefully dissipated in defensive, subversive, and circumventing behavior in response to hierarchical coercion."

Recognizing how things have changed and knowing in general how to respond aren't the same as responding effectively, of course. That applies to business schools and businesses alike.

Tennessee's executive-education program in quality management has already changed significantly. When the business school offered the first of its pioneering three-week quality institutes in the fall of 1981, "the companies who came were the ones that were being most immediately hurt by the Japanese," John Riblett recalls.

By the middle of the decade, "we started seeing a shift," he continues, with dominant companies in other industries moving to head off quality problems. Today, he says, "what started as one three-week institute with a manufacturing orientation has developed into 10 integrated programs that cover a very wide spectrum."

Small and medium-sized firms—some of them suppliers to the auto industry, for example—have been part of the mix at the institutes from the beginning, but big companies have always been the most heavily represented. Neel recognizes that bringing in more small firms will be difficult: "Like everyone else, we've got programs that are primarily premised upon someone's dropping out of their job for a week. A small firm can't do that." Likewise, it's much easier to market a short course in quality to large companies, because they send new students, year after year.

Beyond that, creating shorter programs tailored to small business would be a strain on the university, he says, "because the set-up cost is so high." The challenge is to bring the university's professors and small-business owners together in a way that makes sense for everyone. "In order to deal with that growing market out there," Neel says, "we've got to completely redesign our delivery system."

As Tennessee's experience at its institutes demonstrates, though, encounters between the academic world and small-business people won't necessarily go smoothly even when the "delivery system" is working perfectly.

"We believe in very active learning," says William C. Parr, a professor of statistics who teaches at the institutes, "with a lot of engagement, aiming at behavior change." This always leads, he says, to "a time of storming," when the members of the group realize that *they*—and not just their employees—are expected to change.

For some entrepreneurs—autocratic in their bones—getting a clear understanding of quality management is like peering into the abyss.

Such people are likely to leave a short course on quality management still locked into their hierarchical, controlling ideas. When contemplating such entrepreneurs, Parr likes to quote W. Edwards Deming, the "guru" whose ideas have shaped much of Tennessee's program:

"Someone asked Deming once, 'What about the organizations that don't adapt?' He said, 'The problem is self-correcting.'" NB

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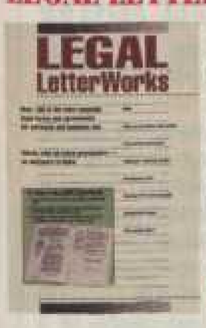

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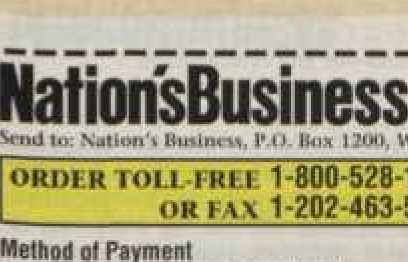

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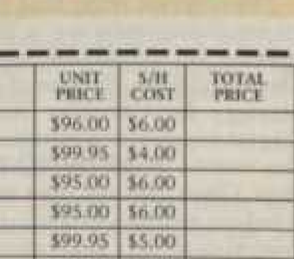

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NB0793

Small-Business Computing

Better ways to run a business by the numbers; a handier mouse; a quicker start.

By Ripley Hotch

ACCOUNTING

Packages Are Catching Up

We have long argued that accounting software should be the center of computerized business operations. But accounting programs simply have not been up to that assignment.

In general, as with other types of software, the first accounting programs simply transferred a paper system to the screen. It was only in the second generation that programs began to use the calculating power of computers. There were two reasons for this. First, double-entry accounting is an obscure invention of a 14th-century Italian monk, and it hasn't changed much in several hundred years. Second, early packages were fiendishly expensive.

Things are, at last, changing. Recent conversations with leading accounting-software publishers about upcoming products have convinced us that publishers are making major efforts to advance accounting software to the level that spreadsheets and word-processing programs are achieving.

Ideally, you want to be able to run your business by the numbers, and that means having the numbers available instantly, updated constantly, and easy to look at in different ways. Only computers could make that possible, and only now are new programs making it a reality.

"The biggest thing that has happened to accounting software is that it doesn't operate in a fishbowl anymore," says David DuPlisea, director of planning and strategy for Computer Associates, the largest supplier of accounting software in the world. "People need access to their data. Given that we have that emerging mind-set change, accounting is becoming central to all data applications."

In DuPlisea's view, the accounting program should connect to all the other functions you want, and Computer Associates no longer refers internally to these packages as "accounting software" but as "business application software." Its new product, **ACCPAC For Windows**, will certainly do accounting, but it also will operate in other systems such as the Macintosh or UNIX. The company can offer fast adaptations for certain functions—like taxation models, banking models, or multicurrency calculations—and users will be able to operate on the data using other programs. It also includes an electronic data interchange service, which is bound to become more important in the future, as companies exchange data electronically to avoid labor-intensive re-keyboarding.

Dynamics, *from Great Plains, offers features from basic to complex.*

"Within 18 months, less than 10 percent of data entry will be by keyboard," says DuPlisea. "Big companies will no longer do business with any vendor that cannot transmit electronic invoices."

EasyABC Plus, *from ABC Technologies, creates models for a company.*

Great Plains, another of the largest accounting software publishers, is also looking to provide a Windows product that will be available for the Macintosh and UNIX operating systems. **Dynamics** offers features that most users will never have thought possible. And Great Plains, too, is calling it "accounting and business management software."

The Dynamics accounting database is central to all the activities of the accounting system. Presentation and manipulation of data are up to the user—or users.

The company is offering Dynamics in various ways, from basic on up to the most complex, so that a company can grow with it. The target market is companies with $1 million to $100 million in revenues. It no longer calls the parts of the system "modules" but "series"—so there is a basic system manager and report writer in the "Foundation Series." A financial series offers the general ledger; the sales series offers receivables, invoicing, and commission management; the inventory series offers inventory as well as pricing management; and so on. You can add parts of the series as you need them, and all feed into the central database.

The system can be modified with Great Plains' Dexterity, the basic language used to put the program together, and customers can design their own applications and variations. The system is multiuser and operates on PCs and Macintosh computers initially, although it will move to OS/2, UNIX, and other operating systems—or any combination.

Because this is a graphical product, screen appearance is attractive, and it can be modified as the user or system manager wishes. It's simply a matter of choosing from a list and moving items about on the screen. You don't want to enter customer numbers? Leave the item off your form. But there can still be customer numbers in the database that will appear on other forms or screens if someone else wants them.

As with all very large products, it's impossible to give a real feel for Dynamics. Suffice it to say that this one really does offer businesses an accounting program that can operate as their businesses do. (You will probably be dealing with a reseller rather than Great Plains directly if you are interested in the

product; for one near you, call 1-800-456-0025.)

Another fascinating business tool is "activity-based management," which its proponents argue is an entirely different way of looking at the real costs of a particular product or service. ABM systems try to account for exact costs by measuring the percentages of resources used to produce a product or service. The answers it will give often vary widely from management's assumptions. If ABM can point out that the traditional product is using far more resources to manufacture than a new one, it might clue management in to the need to shift the product line.

One ABM product is **EasyABC Plus**, from ABC Technologies of Beaverton, Ore. It is a graphical program, and that works to the advantage of something that is far more unusual than the standard packages most computer users work with. The closest parallel is modeling software, though many of the functions seem more like accounting.

EasyABC creates models for a company, and then it sets up "Resource," "Activity," and "Cost Object" sheets. Once you've organized the model according to your company's practices and you've entered the data, the model will calculate actual costs over a given period. Models can obviously get very complicated as many products and services are the result of a number of resource interactions. One concern we have is that ABC Technologies seems to be overly concerned about security; users may feel like criminals after all the threats tossed at them in the process of installation. For more information, call (503) 626-4895.

These new products are taking advantage of the graphical user interface to do things that were simply not possible in the first few generations of computers.

They are far more straightforward for the user, and they generate far more useful information. Traditional accounting software is clearly changing drastically; the ante is up, and it is possible that the future is here at last.

DEVICES

What Could Be New About A Mouse?

Most mice are sold by Microsoft—a fact that most of us forget in the attention we pay to the huge software company's programs. But Microsoft has kept a cat's eye on the mouse and has brought out a new version that has a number of advances.

The focus, says Cliff Brooks, the new mouse's product manager, has been on subtle changes that enhance the experience of using the mouse, from its shape to the software that controls it.

The company has been very concerned with ergonomics, so it has changed the shape from the "Dove bar" to a curved and humped design that feels better in the hand.

As you use the mouse, you don't feel as inclined to squeeze your hand together because the hump fills a space under the palm.

Microsoft also has chosen to customize the mouse for Windows. If you're not a Windows user, it works fine, but it adds some features that are really surprising.

We're very taken with the "magnify" function: A click of the mouse magnifies a 2-inch square at the cursor by a factor of five. It's exactly like having a magnifying glass at that point, and then the cursor movement is very slow and deliberate. For those who are trying to locate the "I-beam" in a line of text, for example, or for artists who get frustrated getting an exact starting point in a drawing or publishing program, the feature is worth the price of the mouse ($109 to $125, depending on your computer hookup).

Other interesting features include a way to locate the mouse arrow quickly; a "wrap" function that in effect joins the top and bottom or right and left sides of the screen so that moving the mouse off the right side will bring it back instantly on the left; and "snap to," which puts the cursor on the "OK" button automatically in a dialogue box. All of these features take a bit of getting used to, but once you do, you wonder how you did without them. Interestingly, there are no right-handed or left-handed versions of this mouse; although it looks distinctly like a right-handed device, it works just as well in the left hand.

OF INTEREST

Contacting Telecommuters

As more workers become interested in telecommuting (see "Managing From A Distance," *Nation's Business*, February 1993), telecommunications companies are coming up with useful products. This is particularly true with 800 services, now that all the long-distance providers are on an equal footing in this market.

MCI is offering a way to route incoming business calls to employees' home offices through a single 800 number. The service is called **MCI HomeOffice Link**. It works much like voice mail. What's more, the caller might not even realize that the employee being called is speaking from someplace other than the company's office.

MCI developed the service for Dun & Bradstreet's telecommuting program.

Back To Square Whatever

Turning on your computer every day usually means a long process of loading start-up files, then programs and data. Besides the time that takes, you may not remember exactly where you were when you powered down, and you'd really like to pick up where you left off.

There's now a product called **Stop&Go**, which essentially takes a "snapshot" of your existing position and saves it to the hard drive. When you turn the machine back on, it takes you back to where you were.

A companion product is the **Stop&Go Card Kit**, which offers additional convenience and protection. You can simply shut the computer off, and the state of the machine is saved to a card memory with a battery backup. In fact, this can serve as an uninterruptible power supply that protects against internal surges and brownouts.

The software works on both PCs and Macintosh machines; the card is for PCs only. List price for the software is $149.95, and for the card kit $299.95; it will be widely available at computer outlets. For more information: 1-800-995-0960.

Regulations On Disk

The CD-ROM compact disk holds an incredible amount of information and in the past year has started coming into its own as a means of storing and searching large databases. For example, ERM Computer Services of Exton, Pa., puts out a CD with the full texts of environmental as well as health and safety regulations issued by the Environmental Protection Agency, the Occupational Safety and Health Administration, and the Department of Transportation.

The product is updated monthly and is called **Enflex Info**. For more information: 1-800-365-2146.

NB

LEGISLATION

Congress Moves To Reform Itself

Prospects are good—and pressure is strong—for substantive improvements in House and Senate procedures.

By David Warner

"Unless we now make an effort to increase the efficiency of senators individually, as well as the Senate as a whole, we will continue to lose our prestige with the people of the United States. . . . I assert that if we allow the opportunity to pass unheeded, we shall miss the great challenge which is being made at the moment to make this great legislative body an efficient organization."

It was during a Senate debate on legislation to reform Congress that Republican Sen. Wallace H. White Jr. of Maine made that statement—back in 1946.

Congress went on to pass the reform bill that White supported.

Twenty-four years later, in 1970, another reform measure was passed. The 1946 act, among other reforms, reduced the number of congressional committees and established a legislative budget. The 1970 act made Congress' deliberations more open to the public and strengthened the institution's decision-making capabilities.

Now, lawmakers are again looking at ways to put their house in order, and it appears likely they will pass some kind of reform package this year or next.

PHOTO: T. MICHAEL KEZA

Rep. Jennifer Dunn: *"We're all going to do as much as we can to open up the legislative process."*

"All the negative things that happened last year connected with Congress have spurred reform on," says Rep. Jennifer Dunn, a first-term Republican from Washington and the only freshman member of Congress on a panel set up to propose reform of the institution. "I really hope people keep the pressure on, because that's what's driving this whole thing."

The public demand for congressional reform intensified over the past two years as headlines told of overdrafts at the House bank, drug and fraud allegations involving the House post office, legislative gridlock with the Congress, and accusations of sexual harassment and other ethics problems concerning certain lawmakers. The movement was fueled last fall when then-candidates Bill Clinton and Ross Perot made reform a major theme of their presidential campaigns.

Many congressional candidates also adopted that theme. Among them was Rep. Deborah Pryce, R-Ohio. This past April, in her fourth month in Congress, she said: "Hundreds of thousands of Americans feel this is a sleazy Congress, and what I've seen since I've been here just helps support that feeling."

But Congress is moving to polish its image. Several select committees already have been eliminated, and House Democrats have voted to cut the $3.7 billion legislative budget by 25 percent over the next five years.

Congress also established this year the Joint Committee on the Organization of Congress, an ad hoc bipartisan panel, to hold hearings on—and recommend—reforms. (This is the third reform panel in Congress' history. The others, set up in 1945 and 1965, resulted in the Legislative Reorganization Act of 1946 and the Legislative Reorganization Act of 1970.)

The new committee is looking at the process by which questionable or possibly unethical behavior by a member is reviewed by the lawmaker's peers. It is also examining Congress' budget process and the committee system. In addition, it is reviewing floor deliberations and scheduling; staffing; relations among the branches of government; the public's understanding of Congress; and communications and information technology in the lawmaking process.

Since late January, the joint committee has received more than 100 reform proposals from Republicans and Democrats, and it has held more than 25 hearings and heard from more than 130 witnesses, including Perot. There have been recommendations to cut committee budgets and staffs, to extend the legislative workweek, to limit members' committee assignments, to reform the legislative process, to limit congressional terms, and to revise the lobbying laws.

"A lot of people on this joint committee are serious," says Norman J. Ornstein, a resident scholar and an expert on Congress at the American Enterprise Institute, in Washington, D.C., "and the biggest thing they've got going for them is if the committee comes up with a plan that's reasonable, and if it's truly reform and is viewed as reform outside of Congress, and if they manage to get it to a vote, it's going to pass. There are a lot of 'ifs,' but there's a real prospect here of having something happen."

Less certain, though, are how substantive the reforms would be and what effect any congressional changes would have on the legislative process and the public, particularly business. "I don't take [congressional reform] seriously," says Paul Peterson, professor of political science at Coastal Carolina University, in Conway, S.C., "because this is one of those things where there's always a lot more talk and smoke than action."

Nonetheless, there appears to be more pressure than usual within Congress for reform this session. Many members

would like to see the institution's operations run more smoothly and more efficiently, and the members elected in November on the promise of reform are eager to follow through on their pledges. The 110-member freshman class in the House—the largest since 1948—is helping to drive the reform push.

Rep. Karen Shepherd, a first-term Democrat from Utah, says that "there's a high degree of interest in reform" among members. She and Rep. Eric Fingerhut of Ohio are co-chairs of the freshmen Democrats' task force on reform, which presented its recommendations to the joint reform committee April 1. They include restricting members to one committee or subcommittee chairmanship, reorganizing committee jurisdictions to avoid duplication of work, and allowing more time for debate on legislation.

The Republican freshmen also developed a reform package, which calls for a 25 percent cut in committee budgets, term limits for ranking committee members, and further reduction in the number of committees and subcommittees.

One reform that freshmen in both parties agree should be made—and which has broad business support—is applying all laws to Congress. Lawmakers' occasional practice of exempting themselves from laws they impose on companies and individuals has been a lingering sore point with business.

While much of the press coverage of reform efforts has focused on public outrage over lawmakers' perquisites, such as free parking, free haircuts, free use of gymnasiums, and free mailings, the congressional reform panel is seeking reforms on matters of greater substance.

Ornstein says that, to its credit, the joint committee has focused on "real" reform: making Congress a more deliberative body, establishing priorities, setting an agenda, and taking action.

> **If the committee comes up with a plan that's truly reform, it's going to pass.**
>
> **Norman J. Ornstein**
> **American Enterprise Institute**

Dunn says substance is what she and the other members of the congressional reform panel want. "We're all going to do as much as we can to open up the legislative process. It's accountability that I want to see brought in. There needs to be a lot more will in this body."

Although many lawmakers seem to agree, it remains to be seen whether enough of them will vote to make those changes. Ornstein, a longtime congressional scholar, is optimistic. He and Thomas Mann, director of governmental studies at the Brookings Institution, in Washington, are co-directors of the Renewing Congress Project, which is working with lawmakers on congressional reform and informing the public about such efforts.

"There's a very real chance that we could get [reform] resolved by the end of the year," Ornstein says. "Opportunities for real and significant congressional reform don't come along every year, and if you don't take advantage of one [opportunity] when it's there—and this is clearly one of those—it's hard to say what will happen down the road."

In 1946, Sen. White knew that forgoing the opportunity to reform the Congress would mean diminishing its prestige in the public's eye and missing a chance to make the institution more efficient.

The stakes today, say congressional experts, are no less important than they were half a century ago. NB

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

CULINARY ARTS

Cooking With Class

I love to cook, and I want to open a cooking school or a catering business, but I don't know where to begin. Do you have any suggestions?
F.M., St. Augustine, Fla.

If you want information about starting a school that trains professional chefs, contact the American Culinary Federation there in St. Augustine, at (904) 824-4468.

The Culinary Federation's members are state and local chapters of professional chefs' associations, and it certifies secondary schools that train and place chefs. Ed Brown, executive vice president, says that to be certified, a school must be in operation for at least two years, must have graduated at least one class, and must have placed all graduates in jobs. He says you will need at least $500,000 to start a professional school.

Among the federation's several publications is *The Art and Science of Culinary Preparation*, which covers professional food preparation "from soup to nuts," says Brown. The book costs $32 plus $3 for shipping and handling.

ILLUSTRATIONS: MARTHA VAUGHAN

The *National Culinary Review*, a monthly newsletter, contains information on the industry as well as the latest developments and techniques in the culinary arts. An annual subscription is $35.

To order the publications or obtain more information, call the number above or write to the American Culinary Federation at P.O. Box 3466, St. Augustine, Fla. 32085.

If you become involved in catering or other forms of cooking and need more information about the profession, contact the International Association of Culinary Professionals. This association offers programs and seminars for individuals regularly engaged in paid culinary activities; these include chefs, caterers, food writers, food-school teachers, consultants, media personalities, students, and apprentices.

The organization also publishes *Food Forum*, a bimonthly newsletter on industry trends and news. A subscription costs $30 a year. To place an order or obtain more information, contact the association at 304 W. Liberty St., Suite 201, Louisville, Ky. 40202; (502) 581-9786. ■

ACCOUNTING

Choosing A CPA

We are not happy with our certified public accountant because he does not advise us on tax-saving possibilities or ways we can make our company more profitable. What should we look for in a new CPA?
E.J., Livonia, Mich.

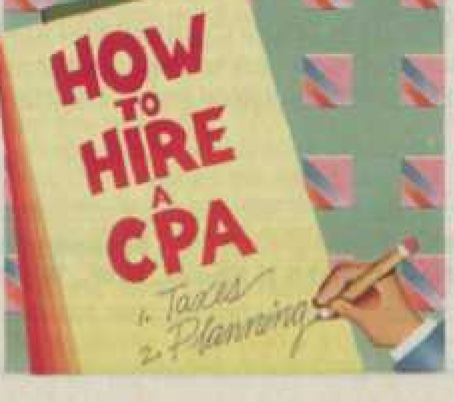
Experts at national accounting firms contacted by *Nation's Business* said your CPA should fit in with your personality and management style as well as be a good numbers cruncher. They added that your accountant should be able to help you with tax planning, offer advice on your short-term and long-term financial strategies, provide financial reports, help you prepare loan applications, and customize your internal accounting procedures.

To find a CPA, ask your banker, lawyer, or business colleagues for a recommendation.

Jerrell Atkinson, managing director of Atkinson & Co., an Albuquerque, N.M., accounting firm, recommends that you interview prospective CPAs on their commitment to servicing your account, find out about their relationships with area bankers and lawyers, and obtain background information on their firms. "Get referrals from at least two of the CPA's clients of two to five years," says Atkinson.

Be prepared to share your plans and objectives with your CPA, clearly explain your expectations, keep good records so your CPA doesn't waste time on routine work, and keep the person informed of changes in your business.

The American Institute of Certified Public Accountants, which has more than 248,000 members—more than 118,000 of them in public practice—publishes a free pamphlet, *101 Questions to Ask Your CPA*. To get a copy, send your request along with a stamped, self-addressed envelope to AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036. ■



CRIME PREVENTION

Block The Exits

I run a medium-sized retail store, and I think I am being shoplifted to extinction. Do you have any suggestions on what I can do to protect myself?
J.W., New Brunswick, N.J.

Start by reading "To Catch A Shoplifter," in the November 1992 issue of *Nation's Business*. The article lists the most common characteristics of shoplifters, which include nervousness, avoiding others, and aimlessness.

It also covers concealment techniques, ploys, and cash-register flimflam, and it includes a section on ways to handle a suspected shoplifter.

To order a copy of the issue, send a request and a check for $3 to Nation's Business Reprints, 1615 H Street, N.W., Washington, D.C. 20062-2000.

If you suspect that your employees are stealing from you, consider these tips from security experts on how to detect internal theft:

Keep good inventory records, and make spot comparisons against sales.

Watch the back door of your store more than the front (goods being stolen often go out the back door).

Use a personal shopper occasionally to check on cash-register procedures. ■

TRAVEL

Preparing For Takeoff

I just sold a small business that I ran for 20 years, and I would like to try opening a travel agency. Where might I go for more information?
W.C., Seattle

Steve Champion, co-founder of Champion-Kail Travel, a small travel agency in Washington, D.C., makes four recommendations:

■ Make sure you have enough capital to open the business, keep it running, and pay your living expenses for at least six months.

■ Specialize in one niche, such as cruise or corporate travel.

■ Offer highly personalized service.

■ Be prepared to market your service.

How to Open and Run a Money-Making Travel Agency (John Wiley and Sons), by Pamela Fremont, covers topics such as finances, staffing, clients, automation, deregulation, and profits. The book costs $12.95 and may be ordered from the publisher by calling 1-800-225-5945, extension 2497.

Another book on the subject is *Guide to Starting and Operating a Successful Travel Agency* (Delmar Publishers), by Laurence Stevens.

Its topics include how to buy and start a travel agency, hiring and training staff, advertising and promotion, accounting

systems, and escorting tours.

The book is available from the publisher for $34.95 plus shipping and handling. Call 1-800-347-7707.

For a free list of additional publications on starting a travel agency, mail a stamped self-addressed envelope to the American Society of Travel Agents, 1101 King St., Alexandria, Va. 22314. ■

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102.

Writers will be identified only by initials and city. Questions may be edited for space. ■

RECYCLING

Paper Work

Where can I get basic information on starting a paper-recycling business?
J.I., New York City

The American Paper Institute offers a wide range of books and pamphlets on what is involved in starting a paper-recycling business.

Contact the institute at 1250 Connecticut Ave., N.W., Washington, D.C. 20036; 1-800-878-8878.

Several magazines cover activities within the recycling industry and within government. These publications are geared to industry members, interested consumers, environmental groups, and government officials.

In Business, a bimonthly at $23 a year, covers diverse subjects, including consumer and government issues. Contact JG Press, 419 State Ave., Emmaus, Pa. 18049; (215) 967-4135.

Resource Recycling, a monthly magazine on general industry trends, costs $42 a year. Write or call the circulation department at P.O. Box 10540, Portland, Ore. 97210-0540; (503) 227-1319.

GARBAGE: The Practical Journal for the Environment, another bimonthly on various consumer and business recycling concerns, is $21 per year from *GARBAGE* Magazine, P.O. Box 56519, Boulder, Colo. 80322-6519. NB

To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Marcia Mazur

When You're Sick On The Road

You wake up in your hotel room in terrific pain, staring at the ceiling and wondering where to turn for help in an unfamiliar community.

Don't worry. There's an amazing amount of medical aid available if you know how to tap into it.

First, ask if your hotel has a doctor on call—but don't be surprised if it doesn't. Even major hotel chains may not provide one at every location.

Just because you are in a hotel room doesn't mean you're cut off from city services, though.

In the United States, getting help is as simple as calling a cab to take you to the nearest hospital; or you can call the local operator for an ambulance. But, first, to get some idea of how sick you really are, you can also call:

■ Doctors By Phone, a service that operates seven days a week in all 50 states between 8 a.m. and midnight, Eastern time. Call 1-900-77-DOCTOR ($3 a minute).

■ Ask-A-Nurse, a 24-hour service that puts you in touch with a nurse in certain states. Call 1-800-535-1111 to see if it operates in the area where you're traveling.

National health organizations, such as Blue Cross and Kaiser Permanente, have members' medical facilities around the United States. (Blue Cross also operates overseas.) Kaiser members can talk to their hometown advice nurse at any time by calling the 800 number on the membership card.

The American Automobile Association now notes the exits for 24-hour emergency medical facilities in all the TripTiks (the travel-planning booklets that show recommended routes) it prepares for the U.S. The TripTiks also note medical centers in Canada.

If you become ill abroad, look for a pharmacy. Overseas pharmacists often diagnose and advise on minor illnesses—and they may sell some medications over the counter that require a prescription in

ILLUSTRATION: JOHN [illegible]

the U.S. They will probably be able to direct you to an English-speaking medical facility.

Blue Cross/Blue Shield members can call a special number, collect, from around the world to learn the location of the nearest participating facility. Or try the American embassy for a list of English-speaking doctors.

Although an American-trained or English-speaking doctor is a convenience when you become ill abroad, it can also be medically advisable.

That's because certain illnesses may be unfamiliar to doctors who see only a particular population, and types of treatments differ around the world.

Your best bet is to go prepared.

First, pack a medical kit with these items: an antidiarrheal (prescription strength for developing countries); an antibiotic; an antihistamine; pain medication; and small bandages. Carry an ample supply of all medications you now take, or may sometimes need, such as allergy pills, and keep them with you, not in a suitcase.

If you're headed for the Third World, call the Centers for Disease Control's International Traveler's Hotline, at (404) 332-4555, to learn what immunizations you'll need and what medical precautions you should take.

Are you coping with special concerns, such as diabetes or anticoagulant drugs?

Consider medical "jewelry" to let people know. Medic-Alert, at 1-800-ID-ALERT, takes orders 24 hours a day. Its products are engraved with a phone number that can be called, collect, any time from anywhere in the world. An interpreter will give a foreign doctor your health history.

And don't forget your credit card! Most major card companies offer a wide range of assistance and referrals to members holding the appropriate type of card (and sometimes nonmembers) both in the U.S. and abroad. You will pay your own medical costs, but there's no charge for your call from overseas and the card company's help.

Depending on the company, that help can include an operator to translate your message into the appropriate language; the location of an English-speaking doctor; a place to fill a prescription or have your medication delivered; help in replacing eyeglasses; calls to relatives; continuous monitoring of treatment; and emergency transportation to hospital or home. The company may even assist in arranging payments.

Then there's the International Association for Medical Assistance to Travellers, at 417 Center St., Lewiston, N.Y. 14092-3633; it maintains a list of participating physicians in about 125 locations. There's no charge for membership, but a tax-deductible donation is requested.

Final tip: Carry insurance and credit-card information with you everywhere, and save medical receipts, including translations.

With a little preparation, you need never again meet an away-from-home medical emergency with that "What now?" feeling. ■

Marcia Mazur is the senior editor of a national health-care magazine.

It's Your Money

A monthly survey of strategies and suggestions to help you with your personal finances.

By Peter Weaver

TRAVEL

Freighter Voyages For The Anti-Cruise Crowd

PHOTO: ©MARK HARRIS—FOLIO, INC.

Care to sail to distant places *on a ship that offers first-class meals, spacious staterooms, and only a few other passengers? Maybe you're ready to book a freighter.*

Do cocktail parties, gambling, dancing till dawn, and the rest of the cruise-ship glitz leave you cold?

If so, you may be a candidate for lolling along on a freighter that offers first-class meals, spacious staterooms, and only a small number of other passengers.

"There is lots of space available now," says Margi Mostue, a spokeswoman for the Freighter World Cruises booking agency, "because electronic and automated equipment has cut crew sizes, leaving extra officers' cabins open for passengers."

In the past, business people with limited vacation time were shut out of freighter travel because voyages often took from one to four months to complete.

"Now, thanks to sea/air packages," Mostue says, "you can get in a nice, lazy, three-week freighter trip." For example, you can depart from the West Coast on a freighter that makes port calls at Auckland, New Zealand, and Sydney, Australia. Then you fly home from Sydney in time to get back to work. The cost for this scenic South Pacific ride is $2,450 per person for doubles and $2,940 for singles. Trips through the Panama Canal run for as little as $2,235 per person for doubles and $2,425 for singles.

"Prices include cabin, all meals, and air fare," Mostue says. Some ships even have swimming pools along with good book and video libraries.

You also have lively shared dining with the captain, officers, and the few other passengers. "Each ship has a canteen where you can buy drinks at duty-free prices," Mostue says.

For more information, check with your travel agent, or call Freighter World Cruises, in Pasadena, Calif., at (818) 449-3106. (Prices may vary.)

The firm also puts out *Freighter Space Advisory*, a biweekly newsletter that lists what's available for up to six months ahead, including sailing dates and prices. A one-year subscription is $33. ■

INVESTING

Borrowing Money On Your Stocks

"Write yourself a loan for almost any purpose through your [money-management margin account] feature."

This exhortation to borrow money, at a low interest rate, using your securities as collateral, is quoted from a major brokerage firm's monthly newsletter.

Most other brokerages offer similar "margin" accounts that allow customers the use of special checks or credit cards to borrow, on an ongoing basis, up to 75 percent of the value of their stock portfolios.

Is such a loan a good deal?

Yes and no.

Yes, if the loan is for some temporary purpose and you plan to pay the money back soon. The low rates compare with those you can get with a home-equity loan (currently around 8 percent), and there are no closing costs.

No, if you let your borrowing accumulate to a level at or near the limit. "These are not loans that have a specific life," says John Markese, president of the Chicago-based American Association of Individual Investors. "They can be called at any time depending on what the stock market does."

And the market can do nasty things to margin borrowers, as was seen in 1987 and 1989 when panic selling caused prices to crash.

If stock values fall below the margin limit, brokers call for more cash to build up the account. In some cases, they can sell part or all of your holdings to protect themselves.

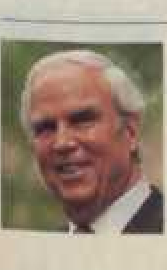
Bill Mitchell, a branch manager for A.G. Edwards in Washington, D.C., has this advice for current or prospective margin borrowers:

"Make sure you know what you're doing. Borrow for a good reason, and pay back the account as soon as you can. Ask your broker to explain how the loan works with your specific securities. How far down in price will any given stock have to go before you'll be called to ante up?"

You might want to pay off some high-interest credit-card accounts with a low-interest margin loan.

Or you might need the money to cover college costs this fall.

"But remember," Markese says, "don't run the margin loan up too high, and pay it off as soon as you can." ■



Peter Weaver is a Washington-based columnist on personal finance.

BANKING

Keep Checking Your Checking Account

Item: An employee of a small real-estate business left the company checkbook in a desk drawer and went out to lunch. A temporary next-door "neighbor" slipped in, took some back pages, and withdrew more than $25,000 with forged checks before anyone knew what was happening.

Item: A workman fixing up a family home removed a check from a checkbook on the kitchen table, forged a signature, and picked up an extra $410.

According to the American Bankers Association, check fraud is on the rise, and crooks are hitting small businesses and personal residences where checkbooks are not secured and owners pay scant attention to the monthly statements.

"You must physically control your checkbook," warns consultant Edward F. Mrkvicka Jr., a former bank president in Marengo, Ill., and author of *The Bank Book* (HarperCollins). "This means keeping all checkbooks under lock and key and personally monitoring bank statements and canceled checks when the mail comes in."

After police apprehended one crook in the Chicago area, they found more than 400 blank checks from 60 different small businesses and personal residences in the trunk of his car. None of the victims had realized their checks were missing.

"Reconcile your statements promptly," says Paul Deriso, security chief for First Union Bank in Florida. "If you can't do that," he says, "at least look at each returned check for signs of fraud, and see if there are any number gaps in the statement."

Aside from stealing checks, Mrkvicka says, crooks can alter checks you've written to include another name and another dollar amount. For example, you write a check for $25 to John Doe. You leave a small space between the dollar sign and the 25, and you leave some space in front of the written amount. The crook puts a 5 in between the dollar sign and the 25 and a "Five" in front of the written "twenty-five," and suddenly you have a check for $525.

PHOTO: ©TOM McCARTHY—FOLIO, INC.

Write checks *carefully—to guard against fraud.*

Add an additional name after John Doe, such as John Doe Smith, and you have another identity.

"Learn how to write a secure check," Mrkvicka says, "by keeping dollar signs and numbers close together, keeping names and written amounts hard left, and by writing in lines from the name all the way over to the right."

"Generally, if a bank gets a forged or altered check, it is responsible for payment," says First Union's Deriso. That liability includes all the fees for bounced checks in your account.

There are some exceptions, however, depending on state law.

"While banks are generally responsible for paying up on bad checks," Mrkvicka says, "the whole procedure can turn your account and your financial affairs into a living nightmare."

The bottom line: Watch over your checks as if they were cash.

TELEPHONE SERVICE

Personal 800 Numbers Catch On At Home

Businesses have long known that having a toll-free 800 number can attract new customers and keep old ones happy.

Now, families with children in college, grandparents who want to keep in touch often, and people whose careers keep them on the road are having their own residential 800 numbers installed.

"The price for 800-number service has come way down," says Monty Hoyt, a spokesman for AT&T. Families with big long-distance bills are discovering that an 800 number can save money month in and month out.

"We only charge $3.95 a month for the service," says Su-Lin Cheng, a spokeswoman for MCI, "plus per-minute usage, which costs a lot less than collect calls and, in most cases, less than card calls."

AT&T charges $5.50 a month plus a flat rate of 20 cents a minute for off hours, holidays, and weekends, and 27.5 cents a minute during "business hours (8 a.m. to 5 p.m. weekdays).

"The cost is not the only consideration," says Neil Sachnoff, president of TeleCom Clinic, a communications consulting firm. "Quite often," he says, "installing a personal 800 service is based on an emotional decision."

Maybe you want your children, your parents, or someone else close to you to feel free to call any time. "With an 800 number," says AT&T's Hoyt, "you're saying to your family and close friends, you care, you want them to call any time they want."

"To check out 800-number rates and service features," says Sachnoff, "call your current long-distance carrier's customer-service department first." Then, he says, you may want to check out what other long-distance companies are offering, in order to compare features and prices.

You can find those companies listed in the Yellow Pages under "Telephone Companies."

TAX SAVINGS

The Last Shelters: Low-Income Housing

Remember the Tax Reform Act of 1986? You certainly do if you owned shares in a tax-sheltered real-estate partnership. Those deals provided little if any direct income or appreciation, but they did provide significant tax shelters for other income.

Because the partnerships were draining too much tax revenue from the federal government, Congress wiped them out. In their place, a special form of tax-sheltered investment was created to attract money for low-income housing projects.

"Without a very generous tax incentive," says Fred Copeman, a senior tax manager with the Ernst & Young accounting firm in Boston, "Congress felt it would be impossible for these worthwhile projects to attract any capital."

Investments in low-income housing provide investors with valuable tax credits over a 10-year period. "A dollar's worth of credit," Copeman explains, "is a dollar's worth of tax savings, while a tax deduction is worth only 28 to 30-plus cents in tax savings, depending on your bracket."

The savings can really add up. "Our investors receive between 14 and 16 percent after-tax net over a 10-year period," says Richard DeAgazio, executive vice president with Boston Capital Partners.

But there's a catch. "These investments are highly illiquid," says Ernst & Young's Copeman. "You have to stay in for the long haul." There is not an active secondary market. If you want to cash out before the end of the prescribed 10-year period, you may not be able to find a buyer.

Low-income-housing investments are sold by stock brokers and financial planners. "But before you buy," says Copeman, "look for sponsors who have been around a long time. This is a business where management experience counts heavily."

It's also a good idea to check with your tax specialist to make sure this type of investment fits your financial situation.

NB

For Your Tax File

How to keep taxes from trapping you.

By Albert B. Ellentuck

BUSINESS ORGANIZATION

Should Your Firm Be An S Corporation?

Many entrepreneurs whose firms are S corporations are questioning whether they should continue with that form of business organization if President Clinton's tax proposals become law.

For tax purposes, S-corporation owners file tax returns, but like owners in partnerships, they generally pass through their income or loss to the shareholders, who then include the income or loss in their individual income tax returns.

When Congress passed the Tax Reform Act of 1986, the adoption of the lower individual tax rates—which were much lower than the corporate rates—made S-corporation status very attractive. (See the accompanying chart.) Shareholders were taxed at a lower rate than the corporation was taxed. Many small firms switched to S-corporation status as a result of those 1986 changes.

Under Clinton's tax proposals and the bill the House passed in late May, S-corporation status would no longer be as attractive. The corporate rates would be as low as or lower than the individual tax rates, particularly the rates for high-income individuals.

Should S corporations then become C corporations again? Our advice is to think twice before switching. While S-corporation status would not be as attractive as it has been, it still would be better than C-corporation status for most small businesses.

The major advantage of the S corporation would still remain: The business owner would still be able to avoid double taxation. For example, if a C corporation is taxed at 36 percent on its income and then later pays out that income as a dividend in the following year, that income could be taxed again at an effective top rate of 39.6 percent. Because dividends are not deductible, there would be a double tax on this income. By contrast, the S-corporation income would be taxed only once to the shareholders at a top rate of 39.6 percent.

All in all, in terms of the total tax imposed, it still would be less expensive to be organized as an S corporation if the original Clinton income-tax proposals prevail.

Top Tax Rates For Business

	S Corporations, Partnerships, And Sole Proprietorships*	C Corporations**
	Individual Top Rate	*Corporate Top Rate*
Current Law	31%	34%
Clinton's Proposal	39.6%	36%
House Bill	39.6%	35%

*Those with income from S corporations, partnerships, or sole proprietorships pay taxes on business income through their individual returns. The current individual top rate applies to married couples filing jointly with taxable income over $89,150. Under the Clinton proposal and the bill passed by the House of Representatives, the top rate for such couples would apply to taxable income over $250,000.

**The corporate top rate now applies to taxable income in excess of $75,000. Under the Clinton proposal and the House bill, the top rate would apply to taxable income in excess of $10 million.

CHART: HANS A. BAUM

ESTATE PLANNING

A Badly Drafted Will Can Be Expensive

No one planning an estate would want a word or a phrase in a will to result in the levy of thousands of dollars in avoidable taxes. Thus, tax professionals are studying the latest decision in *Estate of Vissering vs. Commissioner*, a case described in For Your Tax File last May.

In 1991, the Tax Court held that when a trustee had the power to distribute trust principal for himself as "required for his own continued comfort, support, maintenance, and education," then at the time of the trustee's death, the amount in the trust would be included in the trustee's estate for estate-tax purposes.

Under law, when a trustee has the power to distribute principal for his own benefit, that authority is treated as a general power of appointment, which in turn causes the trust property to be included in his estate. The only exception to this outcome is when the authority is limited by a "measurable standard." This means any distribution of principal must generally relate to the donee's health, education, support, or maintenance.

The Tax Court had determined in the Vissering case that the word "comfort" was not a measurable standard, and so the court included the entire $1.5 million of the trust in the trustee's estate. This would have cost the estate an additional $700,000 in estate taxes. The trustee's estate has won a reversal, however, in the 10th U.S. Circuit Court of Appeals.

The appeals court noted that the regulations allowed a measurable standard based, for example, on "support in reasonable comfort" and "maintenance in health and reasonable comfort." The court thus determined that a trust document permitting distribution of principal to the extent "required for the continued comfort" of the decedent was comparable to the language in the regulations and would be an acceptable measurable standard.

Can your attorney now use the language in the Vissering case when drafting your will or trust? It may be possible in the 10th Circuit, but it could be risky in any other jurisdiction.

It is wiser to stick to the precise language of the code or regulations.

Tax lawyer Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.

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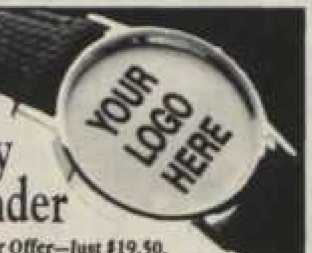

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Where I Stand

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On Budget Bill

Results of this poll on federal tax and spending options will be provided to the administration and congressional leaders.

Send the attached, postage-paid response card. Or circle your answers and fax this page to (202) 463-5636.

1

I am answering these questions based on how tax and spending options would primarily affect:

1. Me
2. My business
3. The overall economy

2

A final budget bill will include a mixture of tax hikes and spending cuts. Which type of tax would you most prefer?

1. A broad-based energy tax
2. Increased taxes on individuals
3. Increased business taxes

3

Which types of spending cuts would you most prefer?

1. Cuts in entitlement spending (Medicare, Medicaid, Social Security, etc.)
2. Cuts in discretionary spending
3. Combination of the two

4

The president proposed a small-business investment tax credit of 7 percent, dropping to 5 percent after Dec. 31, 1994. The House voted instead to raise the maximum investment write-off to $25,000 from the present $10,000. Which would you prefer?

1. The originally proposed ITC
2. The higher limit on write-offs
3. Unsure

5

If some form of energy tax is included in a final bill, would you prefer:

1. A tax on the retail value of all energy use (ad valorem tax)
2. Increases in the federal excise tax on gasoline
3. A tax assessed on the carbon content of energy

6

Which enforcement mechanism would you prefer to ensure deficit reduction?

1. A deficit-reduction trust fund for new revenues
2. Automatic spending cuts if spending exceeds specified targets
3. Automatic repeal of tax increases if promised spending cuts are not achieved

Send Your Response Today!

POLL RESULTS

Readers' Views On Infrastructure

An overwhelming majority of *Nation's Business* readers believe an advanced telecommunications infrastructure is an important element of America's ability to compete globally, according to the Where I Stand readers poll in the May issue.

Sixty-five percent of respondents said an advanced telecommunications infrastructure is very important to international competitiveness, and an additional 30 percent said it is moderately important.

The responsibility for developing this infrastructure belongs to the private sector, according to 66 percent of respondents, while 25 percent said they believe development should be achieved under a government partnership with business. Only 9 percent said a totally government-controlled development effort would be appropriate.

When asked if a modern transportation infrastructure is important to the health of their company, 35 percent said it is very important, and 37 percent said it is moderately important.

However, only 34 percent of the respondents would be willing to pay higher taxes or user fees to improve transportation services and facilities. Fifty-five percent said they oppose this funding mechanism, and 11 percent were undecided.

Forty-eight percent said additional federal funding for transportation infrastructure would have no beneficial impact on the U.S. economy, while 37 percent said it would be beneficial. Fifteen percent were undecided.

INFRASTRUCTURE

How important is a modern transportation infrastructure to your company?	1. Very important	35%
	2. Moderately important	37%
	3. Not important	28%
Do you agree with President Clinton that increased federal funds for transportation infrastructure projects will help the economy?	1. Yes	37%
	2. No	48%
	3. Undecided	15%
Would you be willing to pay higher transportation-related fees or taxes if the collected revenues went solely to improving transportation services and facilities?	1. Yes	34%
	2. No	55%
	3. Undecided	11%
How important are advanced telecommunications to the United States' ability to compete globally?	1. Very important	65%
	2. Moderately important	30%
	3. Not important	5%
Where should primary responsibility for developing an advanced communications infrastructure be placed?	1. In a cooperative federal, state, and local effort	9%
	2. In the private sector	66%
	3. In a government and private-sector partnership	25%

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Editorial

A Bill That Could Silence Small Business

Consider the situation in which a zoning ordinance that would allow your business to expand is before your city council. The local merchants' association supports the ordinance and solicits contributions from your company and other member firms to campaign for passage. You plan to testify before the council, and two employees help you prepare your testimony.

Does this represent your idea of big-money, democracy-destroying lobbying that requires a federal crackdown? Perhaps not, but there are people in Washington who think that way. The Clinton administration is sponsoring legislation to eliminate the longstanding tax deduction for lobbying expenses. Under that approach, the costs of contacting the city council members, including staff time spent preparing the testimony, would not be deductible.

Critics talk of lobbying in terms of highly paid agents pressuring the Congress on behalf of the so-called special interests, and their allegations often gain a sympathetic hearing from a public feeling ever more remote from the decisions that affect their own lives.

The fact is that the solution to that problem is to make a greater effort—not a lesser one—to influence those who make those decisions.

But the proposals pending in Congress would use the tax laws to discourage lobbying by making it more burdensome and expensive for companies to voice their concerns about governmental matters. And that burden not only would affect the Washington lobbyists who are the purported targets of the legislation but also would apply to efforts by companies to air their views to *state, regional, and local* lawmakers.

Basically, the Clinton administration would repeal provisions of current tax law authorizing businesses to deduct expenses for contacting government officials in an effort to influence legislation of direct interest to those businesses. Activities to influence the outcome of referendums, initiatives, votes on proposed constitutional amendments, and other legislative processes would be covered. The result would be a massive additional record-keeping burden for businesses. Every time a company or an employee of that company voiced a concern to Congress, state legislatures, or county or town legislative bodies, the time and resources involved would no longer be deductible. Under current law, expenses associated with your communications to legislators and other government officials are tax-deductible.

The proposed law would impose a stiff mandate: *preparation of separate records and documentation* needed to show that such costs are not being deducted.

ILLUSTRATION: CHARLOTTE MURRAY FREMAUX

If you are a member of a trade association or other relevant business organization, all your dues are now deductible.

But under the administration's bill, that portion of dues representing costs of lobbying at any level of government would no longer be deductible.

The organization would have to alert its members each year as to what portion of their dues would not be deductible.

Failure to report to members the correct amounts of deductible dues or making other mistakes on provisions of the proposed law could subject a trade association to a penalty of $50 per member and a second penalty in which the top corporate tax rate would be applied to the organization's lobbying and political outlays.

This legislation would not only impose substantial costs on business through higher taxes and additional record-keeping. The cost would also be calculated in terms of damage to a government system based on citizen participation.

Under this bill, many small businesses would be forced out of the democratic process in which they have had a voice on decisions that affect them. While they were silenced, those with more resources would have even greater access to decision makers.

Such an outcome could not by any measure be considered "reform." NB

Free-Spirited Enterprise

By Janet L. Willen

Golf Management

As any duffer knows, frustration is the name of the game.

Ken Blanchard, co-author of *The One Minute Manager*, aims to change that—and your game—with his book *Playing the Great Game of Golf: Making Every Minute Count* (Morrow).

Blanchard applies to golf many of his well-known business-management techniques. He discusses setting and attaining goals, changing habits, applying what you've learned, and staying committed. And he won't try to change your stance.

His aim is to help you enjoy golf more. After all, it is only a game. Blanchard's golf book is available in bookstores for $20.

Safe Sun

Safe tanning is not a contradiction in terms, says **Pro Cutis North America**, of Calgary, Canada.

The company markets umbrellas and tanning shelters designed to let sunbathers catch the good rays and block the bad—without using sunscreens. Pro Cutis says its sun-protection film allows up to 79 percent of the harmless UVA1 rays through while keeping out the harmful UVB and UVA2 rays.

The shelters and umbrellas come in a variety of shapes, sizes, and colors, ranging from a 4½-foot balcony umbrella (at $89) to a nearly 7-foot beach unit (at $395), in violet, blue, green, brown, and pink as well as clear. For more information, call 1-800-461-2347.

ILLUSTRATIONS: JOSEPH MAHLER

Walk On The Wet Side

Beachcombing and shoes may sound like an odd couple, but maybe not. **Gells**, of St. Petersburg, Fla., says its new Wet Feet boating moccasins are "water-compatible."

The body of the shoe is constructed of neoprene, the fabric used in wet suits, but it's perforated so your foot can breathe. The two eyelets are coated in stainless steel. The manufacturer says you can submerge the shoes in fresh or salt water without damaging their shape, color, or longevity.

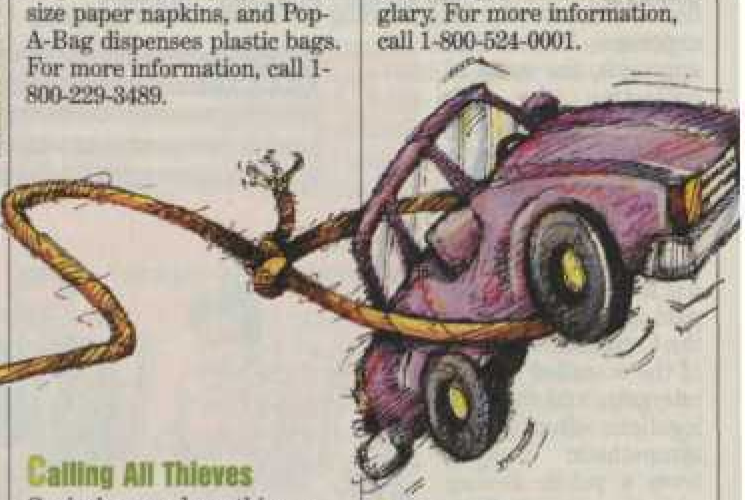
The shoes are available in navy, beige, turquoise, and—for women only—hot pink. They retail for about $49.95. For more information, call (813) 327-7170.

Disposable Dishes

If you have better things to do this summer than dishes, take a look at **Perfection Products**, of El Toro, Calif.

The company manufactures Pop-A-Plate, Pop-A-Plate Jr., Pop-A-Napkin, and Pop-A-Bag. The dispensers fit under counter or shelves so you can choose one disposable product at a time.

The senior plate dispenser holds dinner plates, and the junior stores dessert plates, bowls, or coffee filters. Pop-A-Napkin holds most standard-size paper napkins, and Pop-A-Bag dispenses plastic bags. For more information, call 1-800-229-3489.



Calling All Thieves

Carjackers and car thieves won't go quietly with Lasso, a device manufactured by **Protect & Defend**, of Springfield, Va.

Lasso is a computer-chip mechanism that activates automatically via the driver's door or remote control. Anyone who tries to drive your car without deactivating the device will hear from it.

In 75 seconds, the hazard lights flash and cannot be turned off. Then a voice tells the driver, first in English and then in Spanish: "Pull over now. The engine is about to stop, and loud sirens will start. Get out of my vehicle." The message is continuous.

If thieves don't heed the warning in 25 seconds, they'll hear the wail of 125-decibel sirens—six tones outside the vehicle and the high-pitched ear-piercing "agonizer" inside.

After 20 seconds, the car coasts to a safe stop.

The Lasso works on any car but must be installed by a professional. The retail prices range from $199 to $399, depending upon features.

Lasso comes with two $2,000 guarantees—one covers carjacking, and the other burglary. For more information, call 1-800-524-0001.

Eat And Run

If you eat on the go, Lapalong may help keep you neat. The chic bib was made for business people who eat in their cars, on trains, or at their desks.

The waterproof and washable mat made of terry cloth and nylon is designed to protect clothes from spills and stains. It measures 16 by 22 inches and is designed to be worn across the lap or, with its adjustable clip cord, as a bib. It has a pouch along one side to hold utensils, refreshments—or crumbs. To store, you fold Lapalong into its own pocket, and zip.

Lapalong is available in a variety of colors, and it costs $16.95 plus $2 for shipping. For more information, call the manufacturer, **Mind's Eye Ltd.**, in East Longmeadow, Mass., at 1-800-LAP-8988. NB

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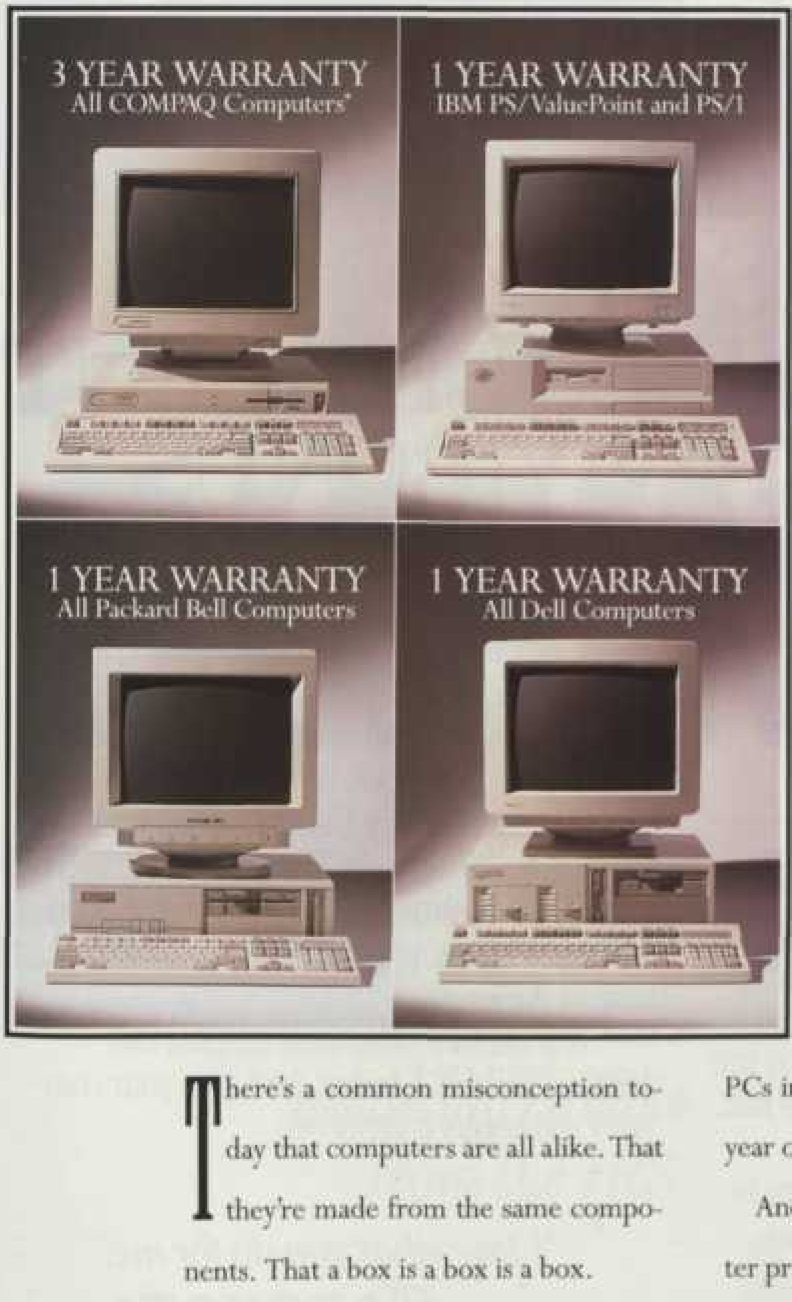

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